# 2015

# Evolution Revolution

## A Profile of the Investment Adviser Profession

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IAA INVESTMENT ADVISER ASSOCIATION

The Investment Adviser Association (IAA), based in Washington, DC, is the leading organization solely dedicated to representing the interests of SEC-registered investment advisory firms. The IAA's members collectively manage assets of more than $16 trillion for a wide variety of individual and institutional clients, including trusts, endowments, pension plans, private funds, mutual funds, and corporations. In addition to serving as the voice of the advisory profession on Capitol Hill and before the SEC, DOL, CFTC, and other U.S. and international regulators, the IAA provides extensive compliance and educational services and resources to its membership. For more information, visit http://www.investmentadviser.org.

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# The Investment Adviser Profession: Strong, Growing, More Vital than Ever

The Investment Adviser Association and National Regulatory Services are pleased to present our fifteenth annual *Evolution Revolution* report, the most comprehensive profile of SEC-registered investment advisers available. This dynamic profession is strong, growing and a vital asset to our economy, to investors and to the capital markets.

The main theme of this year's report is that the industry has shown steady growth across all major metrics:

- The industry remains a powerful job creator. Since our 2014 report, investment advisers have added 31,157 non-clerical jobs—a 4.3% increase. They now employ more than 750,000 individuals.
- At the same time, the number of SEC-registered investment adviser firms grew by a healthy 5.3%—the largest increase in four years—adding 578 advisers, for a total of 11,473 firms.
- The number of clients served by investment advisers jumped as well—by nearly two million. That's an increase of 6.8%, to nearly 30 million clients.
- And investment advisers are managing significantly more assets—a total of $66.7 trillion in aggregate regulatory assets under management (RAUM), an impressive 8.1% increase over 2014.

As in past years, a relatively small number of very large advisers manage a high percentage of total RAUM. Despite this concentration of assets, the reality is that the investment adviser profession remains dominated by small businesses. While the largest 128 firms, or 1.1% of SEC-registered advisers, collectively managed 54.9% of total RAUM, more than half of all advisers—57.3%, or 6,576—reported having 10 or fewer non-clerical employees. And more than 10,000 firms—fully 87.9%—reported having 50 or fewer non-clerical employees.

The data in our *2015 Evolution Revolution* report also demonstrate the diversity of the investment adviser profession. While many advisers serve a broad range of clients, nearly two thirds—64.0%—primarily serve one client type. For instance, more than one in five advisers—22.8%—derive most of their RAUM from pooled vehicles other than mutual funds and ETFs. Similarly, another 29% specialize in serving individuals. And while nearly half of advisers have at least one pension client, only 2.7% primarily serve pension clients.

*2015 Evolution Revolution* provides a full portrait of the SEC-registered investment adviser profession, presenting data on these major themes as well as custody arrangements, private fund advisers, non-core business activities, broker-dealer affiliations, geographic concentrations, disciplinary information and more.

It is our hope that our 2015 report provides information and analysis of value not just to investment advisers, but to the public, policymakers, and the millions of clients SEC-registered advisers serve.

Karen L. Barr

Karen L. Barr
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IAA

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# Explanation of Report Data

Evolution Revolution and its findings are based on Form ADV, Part 1 data filed by all SEC-registered investment advisers as of April 8, 2015. Advisers are required to file specific information electronically using the Investment Adviser Registration Depository (IARD) system.[1]

Form ADV, Part 1 has significant limitations and anomalies. Please consult the text of Form ADV (available on the SEC's website at http://www.sec.gov/about/forms/formadv.pdf) for a more thorough understanding of the underlying data included in this report.

Advisers reporting that they are no longer eligible for SEC registration and those advisers that have not filed an updated Form ADV since November 2011 are not included in this report. 950 such advisers were removed in 2012, 118 in 2013, 171 in 2014, and 174 in 2015.

Increasingly, the terms "investment adviser," "financial advisor," and "adviser" are used imprecisely in the press and by market participants and are often employed when referring to a wide range of financial services professionals, including agents representing insurance companies and registered representatives of a broker-dealer. This is unfortunate and adds to the general public's confusion 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.[2]

# Electronic Access to Data

The Form ADV, Part 1 data underlying the findings in 2015 Evolution Revolution is contained in the report's Appendix, which is available online at http://www.investmentadviser.org (https://goo.gl/CWg3qy) or http://www.nrs-inc.com/About-Us/White-Papers/.

[1] 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.

[2] Section 202 of the Investment Advisers Act defines an investment adviser as "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…" Section 202 also excludes certain entities under certain circumstances, including banks, bank holding companies, broker-dealers, and publishers of bona fide news publications.

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## The 2015 "Typical" SEC-Registered Investment Adviser

- U.S. based limited liability company
- Exercises discretionary authority over most accounts
- $332 million in regulatory assets under management (median)
- 8 employees (median)
- 26 – 100 clients (median)
- 100 accounts (median)
- Clients include individuals (60.9%) and pension/profit sharing plans (47.1%)
- Does not have actual physical custody of client assets or securities

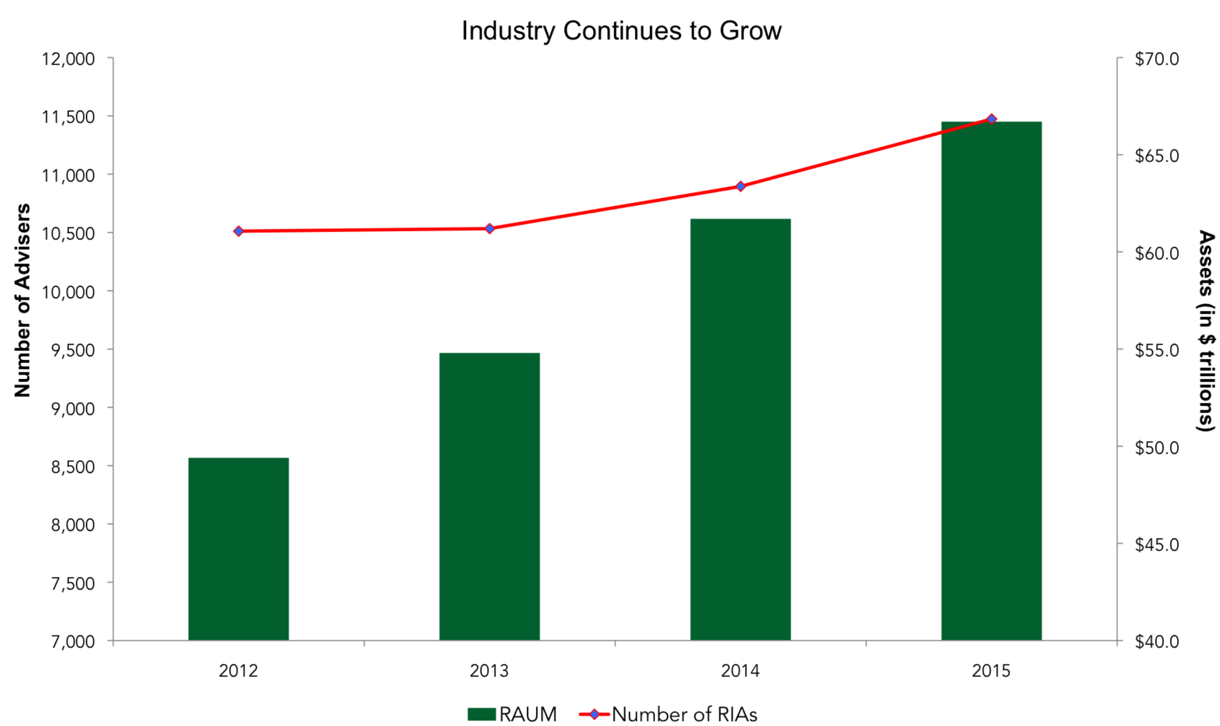



**Chart 1: Number of SEC-Registered Investment Advisers and RAUM**

# Executive Summary

Following are key findings of this 2015 report:

- ***The industry saw an increase in the number of SEC-registered advisers in every tier of regulatory assets under management (RAUM) this year, from the smallest to the largest.*** This report contains data on 11,473 SEC-registered investment advisers, a net increase of 578 advisers, or 5.3%, since our 2014 report—the largest increase in four years. Since the last of the Dodd-Frank related rules on adviser registration went into effect in June 2012, the total number of SEC-registered investment advisers has increased by 9.2%, from 10,511 to 11,473, with more than half of that increase coming this year. Since our 2014 report, 1,154 new advisers registered with the SEC, while 576 withdrew their registrations.

- ***The industry continues to add jobs.*** Equally dramatic evidence of the growing strength of the investment adviser profession is the number of new hires at adviser firms. Since our 2014 report, SEC-registered advisers reported 31,157 additional jobs, to a total of 750,795 non-clerical employees, a 4.3% increase.

- ***The industry now manages more than $66 trillion in RAUM.*** SEC-registered investment advisers in 2015 reported $66.7 trillion in aggregate RAUM, an increase of 8.1% from $61.7 trillion in 2014. Since 2012, aggregate RAUM reported by all SEC-registered advisers has increased by 34.8%. The 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 investment advisers and clients.

- ***The industry serves almost 30 million advisory clients.*** In 2015, advisers reported serving approximately 29.7 million clients—up nearly two million, or 6.8%, from 27.8 million in 2014.

- ***The client base is diverse, although many firms specialize.*** While many advisers serve a broad range of clients, nearly two thirds—64.0%—derive more than 75 percent of their RAUM from one type of client.

- ***Individual clients remain important to a great many advisers.*** Despite the shift of smaller advisers to state registration, individuals continue to comprise the largest type of clients of SEC-registered advisers, with more than half of all registered advisers report having both high net worth and non-high net worth individuals as clients. In 2015, 6,828 (59.5%) investment advisers reported having at least some high-net worth individual clients and 5,917 (51.6%) reported having at least some non-high-net worth individual clients. And fully 29% of firms derive more than 75% of their RAUM from individuals.

- ***The largest firms manage more than half the assets.*** As reported in previous years, a relatively small number of very large advisers manage a high percentage of total RAUM. This year, 128 advisers reported managing $100 billion in RAUM or more. Despite accounting for only 1.1% of SEC-registered advisers, these 128 firms collectively managed more than half (54.9%) of all reported RAUM—a 2.3% net increase from last year. On the other end of the spectrum, 71.3% of all advisers reported managing less than $1 billion RAUM, and they collectively managed only 3.3% of all reported RAUM.

- ***Despite the asset concentration among the largest firms, the real story is one of small businesses.*** Even considering the post-Dodd-Frank shift of smaller advisers to state registration, the fact remains that the vast majority of SEC-registered investment advisers are small businesses. In 2015, more than half of all advisers (6,576 or 57.3%) reported having ten or fewer full-time and part-time non-clerical employees, while 10,089 (87.9%) reported having 50 or fewer such employees. Similarly, 6,055 firms (52.8%) reported having five or fewer employees engaged specifically in investment advisory functions (including research), and 8,371 (73.0%) reported having ten or fewer.

- ***The percentage of advisers "deemed" to have custody of client assets remained flat in 2015.*** While advisers, in general, are prohibited from having physical custody of client assets, the custody rule under the Advisers Act may "deem" them to have custody under certain circumstances. The number of advisers reporting that they or a related person were deemed to have custody increased by 251 to 4,954 in 2015, but the overall percentage of such advisers remained steady at 43.2% in both 2014 and 2015. A handful of these advisers are also banks or broker-dealers, and in that non-adviser capacity may act as a qualified custodian. This practice is becoming increasingly rare, however, as only 78 advisers—about 0.7% of all advisers—reported acting as qualified custodians.

- ***The number of private funds increased, as did the number of advisers to private funds.*** In 2015, 4,350 investment advisers (37.9%) reported advising 30,342 private funds, 26.1% of which are funds of funds. A year earlier, 4,156 advisers reported advising 28,429 private funds, 26.8% of which were funds of funds. Hedge funds comprise 37.9% of all reported private funds, while private equity funds comprise 34.3%. The total gross asset value of all private funds is approximately $10.4 trillion—up 9.4% from 2014—representing more than 15.5% of all reported RAUM. The average gross asset value of these private funds is $341.2 million, while the median is $53.7 million, reflecting the existence of a small number of very large funds.

# Number of Investment Advisers

The industry saw an increase in the number of SEC-registered advisers in every category of RAUM this year, from the smallest to the largest. This report contains data on 11,473 SEC-registered investment advisers. This represents a net increase of 578 advisers or 5.3% since our 2014 report, adding 1,154 advisers newly registered with the SEC and subtracting 576 that withdrew their registrations during the past year. This is the largest increase in four years, since the new rules on adviser registration went into effect. Since 2012, the total number of SEC-registered investment advisers has increased by 9.2%, from 10,511 to 11,473, with over half of that increase coming this year.

When the Dodd-Frank Act was signed into law in 2010, it generally delegated to states the oversight of investment advisers with less than $100 million of RAUM, while at the same time requiring additional private fund advisers to register with the SEC. This caused a dramatic shift in the number of smaller advisers registered with the SEC and a decline in the total number of SEC-registered advisers, as evident in Chart 2. Nevertheless, the number of larger advisers continues its steady growth over the past decade, with the exception of a modest decline following the 2008 financial crisis.

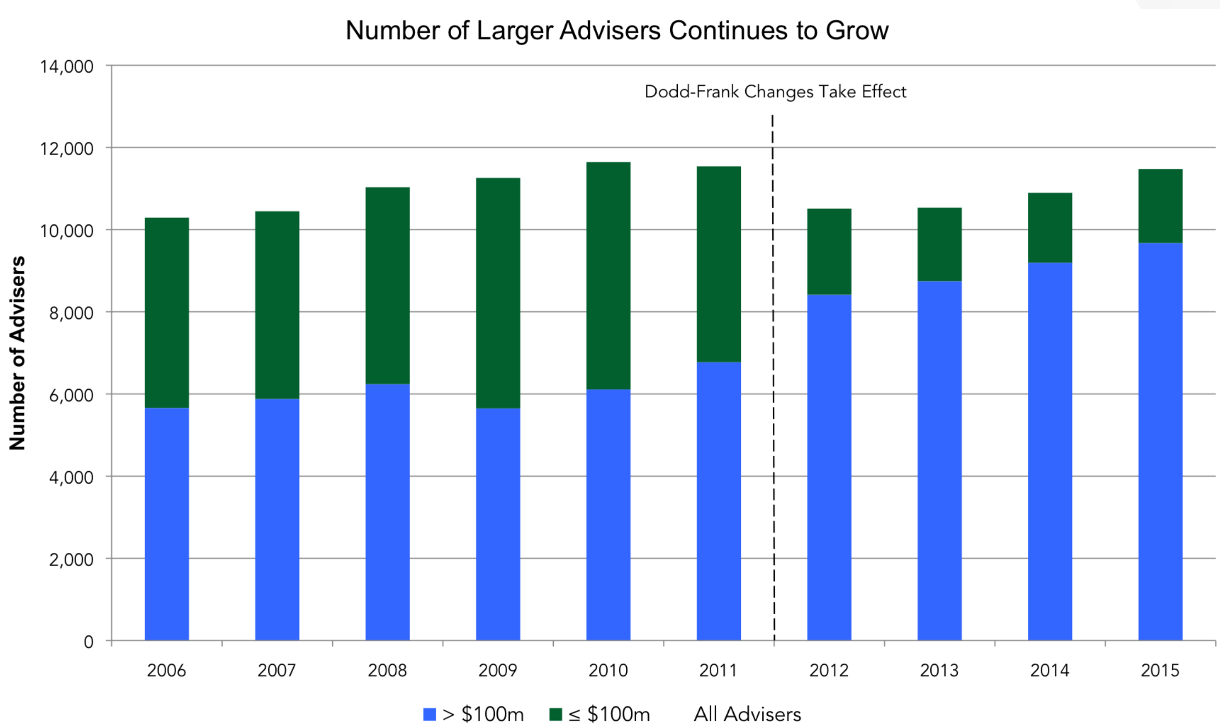
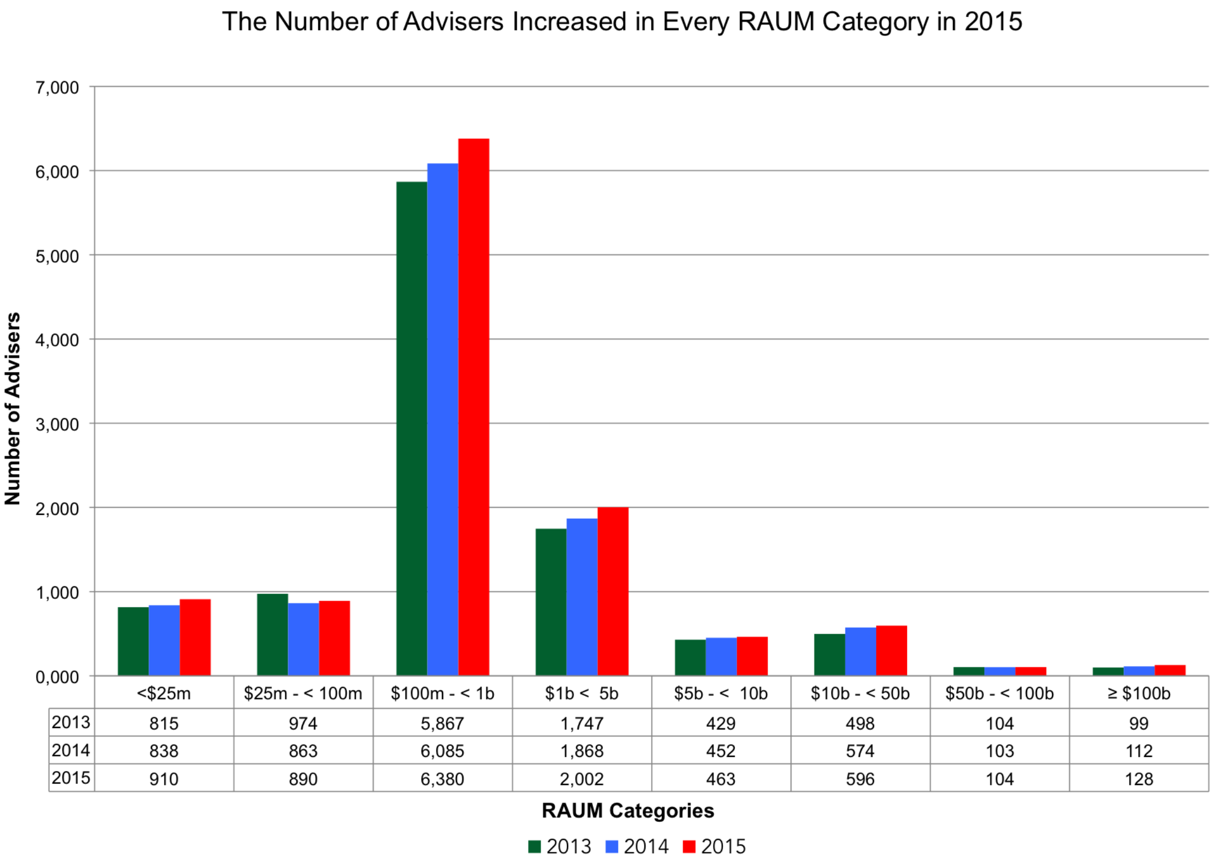



**Chart 2: Total Number of SEC-Registered Investment Advisers**

Form ADV data allows a further breakdown of advisers in various RAUM subcategories (Chart 3). This data shows that more than half of all SEC-registered advisers have RAUM between $100 million and $1 billion. This category also contributed more than half of the net growth in the universe of SEC-registered advisers, with 295 additional firms this year.




| | <$25m | $25m - < 100m | $100m - < 1b | $1b < 5b | $5b - < 10b | $10b - < 50b | $50b - < 100b | ≥ $100b |
|---|---|---|---|---|---|---|---|---|
| 2013 | 815 | 974 | 5,867 | 1,747 | 429 | 498 | 104 | 99 |
| 2014 | 838 | 863 | 6,085 | 1,868 | 452 | 574 | 103 | 112 |
| 2015 | 910 | 890 | 6,380 | 2,002 | 463 | 596 | 104 | 128 |

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

The greatest percentage growth came among the very largest firms, those with RAUM of over $100 billion. That category added 16 advisers, a 14.3% increase over 2014.

A number of factors likely contribute to these positive growth trends in the number of advisers across RAUM categories. Undoubtedly, strong economic and market performance in recent years has led to growth in assets.[3] Demographic shifts and the increase in individual saving for retirement also contribute to greater assets under management.

The SEC's key regulatory priorities reflect the continued growth and importance of the industry. As the total number of registered investment advisers has increased by 33.2% since 2005, the SEC continues to request an increase in budgetary resources to expand examinations and improve oversight.[4]

[3] For example, the S&P 500 index has experienced double digit positive returns since 2009, with the exception of 2011 (23.45%, 12.78%, 0.00%, 13.41%, 29.60%, and 11.39% respectively).

[4] U.S. Securities and Exchange Commission budget request for fiscal year (FY) 2016, at http://www.sec.gov/about/reports/secfy16congbudgjust.shtml.

# Regulatory Assets Under Management

Regulatory assets under management ("RAUM") reported in 2015 increased from $61.7 trillion in 2014 to $66.7, a one-year growth of approximately $5 trillion or 8.1%. The growth rate is higher when looking only at firms that were in both the 2014 and 2015 reports. When backing out the RAUM attributable to the 1,154 newly SEC-registered advisers and the 576 advisers that withdrew their registrations since our last report, the growth of reported RAUM is 8.3%.

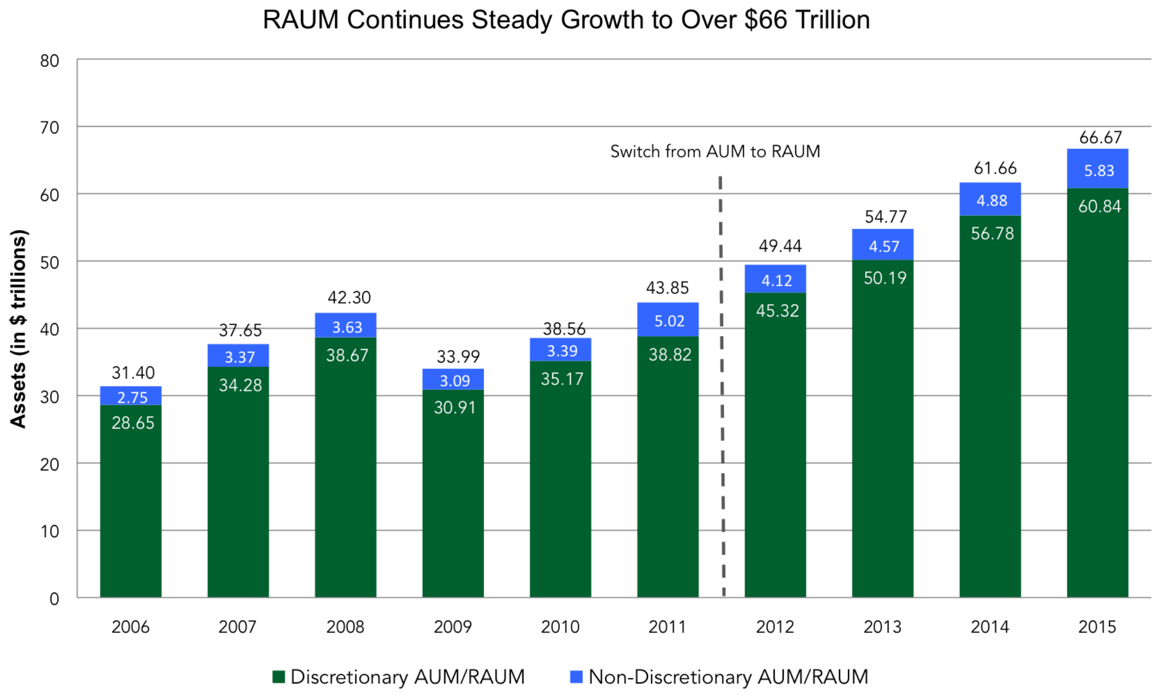



**Chart 4: Total Regulatory Assets Under Management (RAUM)**

We note, however, that the industry's aggregate RAUM overstates actual RAUM because more than one investment adviser can "claim" the same assets. For example, an adviser that allocates assets among mutual funds on a discretionary basis will report a subset of the same assets that are reported by the advisers to these funds. Similarly, a sub-adviser to a fund may count the same RAUM as the primary manager of the fund. In addition, we note that the RAUM figure includes assets in addition to those actually currently invested for clients. For example, RAUM includes uncalled capital commitments, proprietary assets, cash and cash equivalents.

We do not know the extent to which these figures are overstated. Nevertheless, RAUM is the figure required to be reported on Form ADV, and is reported each year on the same basis. Since switching from requiring advisers to report their assets under management ("AUM") to the newly defined RAUM in 2012, reported RAUM has increased a significant 34.8%.

Many RAUM assets held by advisers that withdrew their registrations in 2014 may now be included as RAUM at firms into which the former firms merged or were acquired, or to which existing clients moved their accounts. These and other assets may now be included in RAUM by continuing advisers or other newly registered advisers.

Growth in RAUM is in part a reflection of strong market performance, but market performance alone does not tell the whole story. For example, equity markets as measured by the S&P 500 index experienced an annual growth rate of 13.8% in 2014 and a compound annual growth rate ("CAGR") of 20.4% since 2012. Advisers, however, use many diverse strategies in managing client accounts including increasingly popular equity market alternatives and non-correlated strategies,[5] as well as diversification through non-equity instruments and hedging techniques. As a result, a significant portion of managed assets are not in equities, but in assets not necessarily correlated to equity returns, such as government securities and other fixed obligations or hard assets such as land, commodities, or foreign currencies.

As reported in past years, the vast majority of assets are managed on a discretionary rather than a non-discretionary basis, totaling 91.3% of reported RAUM in 2015, a net .8% decrease over last year.

[5] *See e.g.*, SEC NEP Risk Alert, Volume IV, Issue 1, Investment Adviser Due Diligence Processes For Selecting Alternative Investments And Their Respective Managers, Jan. 2014, https://www.sec.gov/about/offices/ocie/adviser-due-diligence-alternative-investments.pdf.

## Industry Concentration

As reported in previous years, a relatively small number of very large advisers manage a high percentage of total RAUM. This year, 128 advisers reported managing $100 billion in RAUM or more. Despite accounting for only 1.1% of SEC-registered advisers, these 128 firms collectively managed more than half (54.9%) of all reported RAUM—a net 2.3% increase from last year.

On the other end of the spectrum, 71.3% of all advisers managed less than $1 billion RAUM, and they collectively managed only 3.3% of all reported RAUM.

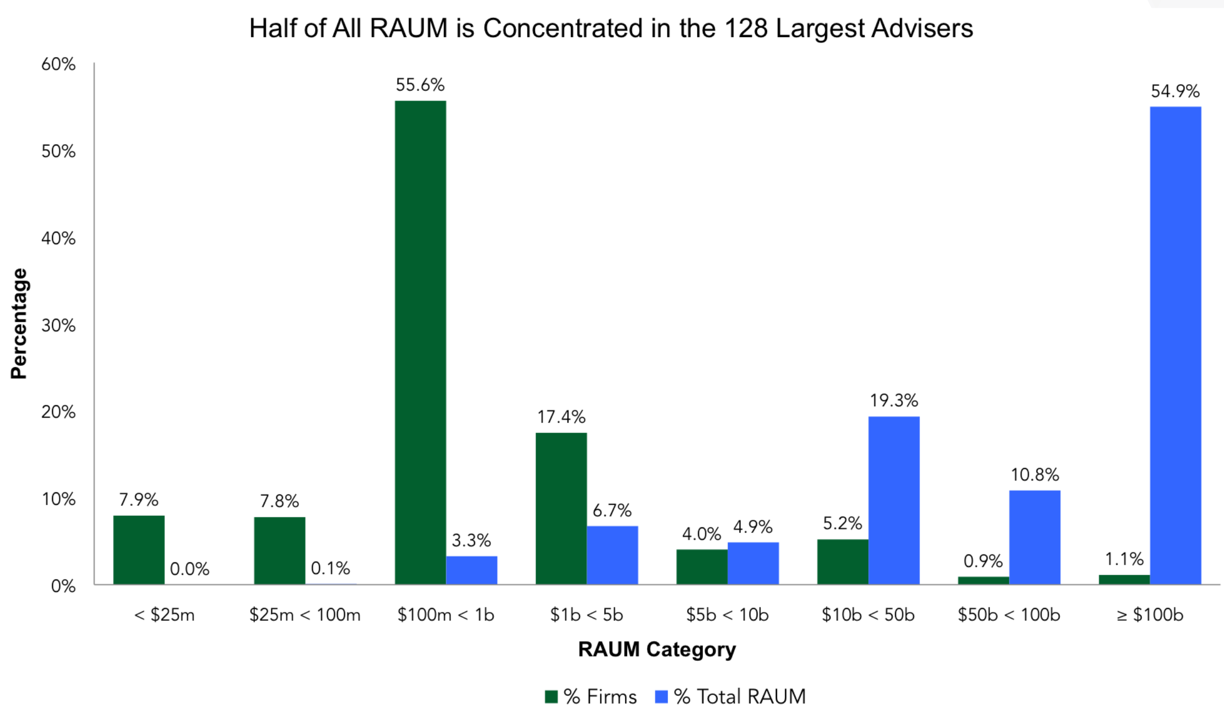



**Chart 5: Concentration of Regulatory Assets Under Management by RAUM Category**

# Clients of Investment Advisers

SEC-registered advisers in 2015 reported a total of approximately 29.7 million clients, up from approximately 27.8 million clients in 2014.[6] This increase of 6.8% underscores the continuing health and growth of the advisory profession.

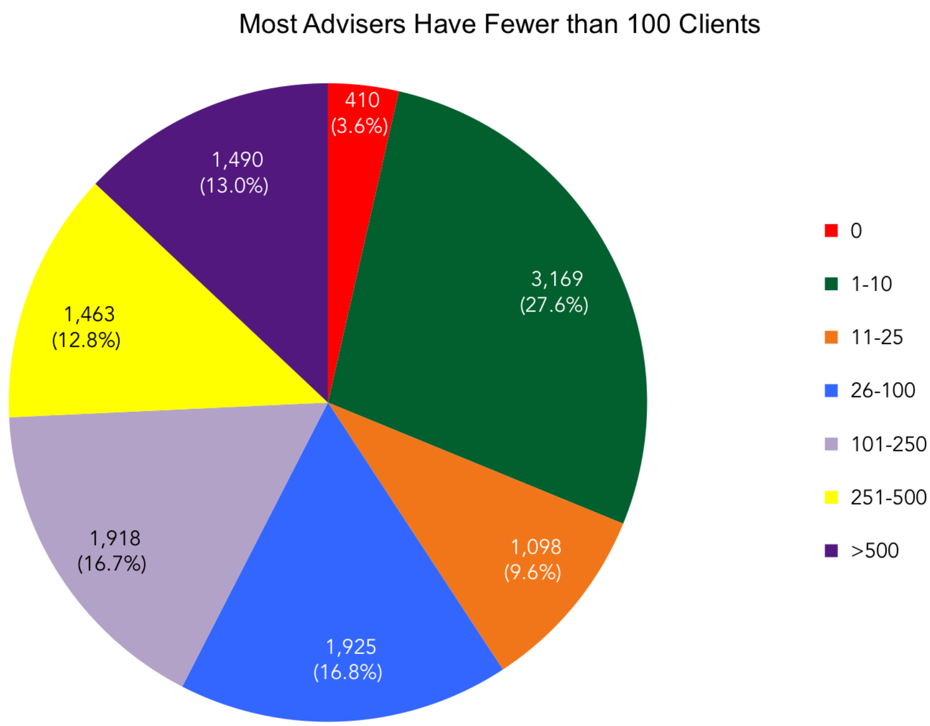



**Chart 6: Number and Percentage of Advisers by Number of Clients**

[6] The Form ADV data shows that advisers had 29,738,992 clients, up from 27,835,033 clients in 2014. These figures are a conservative approximation because advisers are only able to provide a specific number if they have more than 100 clients, and so the figures do not include advisers reporting 100 or fewer clients.

While 42.5% of advisers report having more than 100 clients, a significant portion also report between 1 and 10 (27.6%) clients, as well as between 26 and 100 (16.8%) clients. The median number of clients reported by registered advisers in 2015 is again between 26 and 100.

Several themes emerge from the data on the types of advisory clients served by investment advisers. Individuals remain important to a great many investment advisers and continue to comprise the largest categories of advisory clients. Consistent with prior years, the 2015 data indicate that 6,828 (59.5%) of SEC-registered advisers have at least some high net worth clients and that 5,917 (51.6%) have at least some non-high net worth clients.[7] 6,988 advisers (60.9%) report that they have at least some individual clients of either type. These two types of client categories listed on Form ADV are the only ones that exceed the 50% mark for all advisers. This dominance of individual clients continues despite the Dodd-Frank Act changes that shifted a significant number of smaller advisers to state registration and required SEC registration of certain private fund advisers.

Many advisers have pension clients as well. In 2015, nearly half of all investment advisers (47.1%) reported that at least one client is a pension or profit sharing plan. This data relates to advisers to the plans only; it does not include advisers to plan beneficiaries or participants in 401(k) plans or individual retirement accounts.

Other types of non-individual clients reflect some specialization within the advisory profession. For example, only 764 (6.7%) reported any banking/thrift institution clientele; only 1,014 (8.8%) reported any insurance company clients; only 1,355 (11.8%) reported any state or municipal government clients; and 1,863 (16.2%) reported any investment company clients.

Form ADV, Part 1 data allow for a comparison of the number of various types of clients to the percentage of total RAUM that each client type represents. As shown on Charts 7 and 8 and consistent with our analysis in past years, the 2015 numbers line up relatively closely across the two measures.

[7] For purposes of this reporting item, 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).

| Type of Client | Percentage of Clientele | | | | | | | Total Reporting > 0 | Percent of All Advisers | Percent over 75% | Number over 75% |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | None | Up to 10% | 11-25% | 26-50% | 51-75% | 76 - 99% | 100% | | | | |
| Individuals (other than high net worth individuals) | 5,556 | 1,019 | 885 | 1,313 | 1,393 | 1,247 | 60 | 5,917 | 51.6% | **11.4%** | **1,307** |
| High net worth individuals | 4,645 | 1,272 | 1,305 | 1,732 | 1,272 | 1,132 | 115 | 6,828 | 59.5% | **10.9%** | **1,247** |
| Banking or thrift institutions | 10,709 | 604 | 74 | 29 | 14 | 14 | 29 | 764 | 6.7% | **0.4%** | **43** |
| Investment Companies (including mutual funds) | 9,610 | 967 | 254 | 162 | 70 | 86 | 324 | 1,863 | 16.2% | **3.6%** | **410** |
| Business Development Companies | 11,358 | 56 | 11 | 9 | 3 | 2 | 34 | 115 | 1.0% | **0.3%** | **36** |
| Pooled investment vehicles (other than investment companies) | 6,805 | 1,074 | 333 | 443 | 356 | 454 | 2,008 | 4,668 | 40.7% | **21.5%** | **2,462** |
| Pension and profit sharing plans (but not the plan participants) | 6,072 | 3,851 | 726 | 397 | 176 | 149 | 102 | 5,401 | 47.1% | **2.2%** | **251** |
| Charitable Organizations | 6,922 | 4,019 | 381 | 108 | 20 | 15 | 8 | 4,551 | 39.7% | **0.2%** | **23** |
| Corporations or other businesses not listed above | 6,673 | 3,961 | 539 | 184 | 53 | 22 | 41 | 4,800 | 41.8% | **0.5%** | **63** |
| State or municipal government entities | 10,118 | 973 | 198 | 99 | 28 | 28 | 29 | 1,355 | 11.8% | **0.5%** | **57** |
| Other Investment Advisers | 10,421 | 708 | 152 | 82 | 27 | 26 | 57 | 1,052 | 9.2% | **0.7%** | **83** |
| Insurance Companies | 10,459 | 811 | 103 | 56 | 14 | 15 | 15 | 1,014 | 8.8% | **0.3%** | **30** |
| Other | 9,400 | 664 | 202 | 132 | 53 | 42 | 59 | 1,152 | 10.0% | **0.9%** | **101** |
| | | | | | | | | | **Total:** | **53.3%** | **6,113** |

## Chart 7: Types of Clients by Percentage of Clientele

| Type of Client | Percentage of RAUM | | | | | Total Reporting > 0 | Percent of All Advisers | Percent over 75% |
|---|---|---|---|---|---|---|---|---|
| | None | Up to 25% | Up to 50% | Up to 75% | > 75% | | | |
| Individuals (other than high net worth individuals) | 5,673 | 3,224 | 1,169 | 835 | 572 | 5,800 | 50.6% | **5.0%** |
| High net worth individuals | 4,778 | 2,282 | 1,389 | 1,540 | 1,484 | 6,695 | 58.4% | **12.9%** |
| Banking or thrift institutions | 10,793 | 548 | 49 | 27 | 56 | 680 | 5.9% | **0.5%** |
| Investment Companies (including mutual funds) | 9,702 | 793 | 257 | 179 | 542 | 1,771 | 15.4% | **4.7%** |
| Business Development Companies | 11,370 | 48 | 9 | 2 | 44 | 103 | 0.9% | **0.4%** |
| Pooled investment vehicles (other than investment companies) | 6,853 | 1,292 | 375 | 341 | 2,612 | 4,620 | 40.3% | **22.8%** |
| Pension and profit sharing plans (but not the plan participants) | 6,294 | 4,183 | 463 | 222 | 311 | 5,179 | 45.1% | **2.7%** |
| Charitable Organizations | 7,045 | 4,221 | 135 | 42 | 30 | 4,428 | 38.6% | **0.3%** |
| Corporations or other businesses not listed above | 6,910 | 4,184 | 199 | 74 | 106 | 4,563 | 39.8% | **0.9%** |
| State or municipal government entities | 10,205 | 988 | 139 | 64 | 77 | 1,268 | 11.1% | **0.7%** |
| Other Investment Advisers | 10,573 | 683 | 88 | 47 | 82 | 900 | 7.8% | **0.7%** |
| Insurance Companies | 10,530 | 792 | 68 | 34 | 49 | 943 | 8.2% | **0.4%** |
| Other | 9,511 | 783 | 124 | 66 | 115 | 1,088 | 9.5% | **1.0%** |
| | | | | | | | **Total:** | **53.0%** |

## Chart 8: Types of Clients by Percentage of RAUM[8]

[8] 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.

Another way to look at this data is by focusing on advisers that report more than 75% of either their clients or RAUM as being attributable to a single type of client. In either case, nearly two thirds of all advisers fit this description, gathering the bulk of their clients or assets from a single category. Focusing on RAUM highlights this specialization. 64.0% of advisers derive more than 75% of their RAUM from a single type of client. Among those advisers, 22.8% of firms specialize in pooled vehicles other than investment companies, 4.7% in investment companies, and 2.7% in pension clients. And 3,322 advisers—29%—specialize in either high net worth individuals (12.9%), non-high net worth individuals (5.0%), or a combination of the two (11.0%). [9]

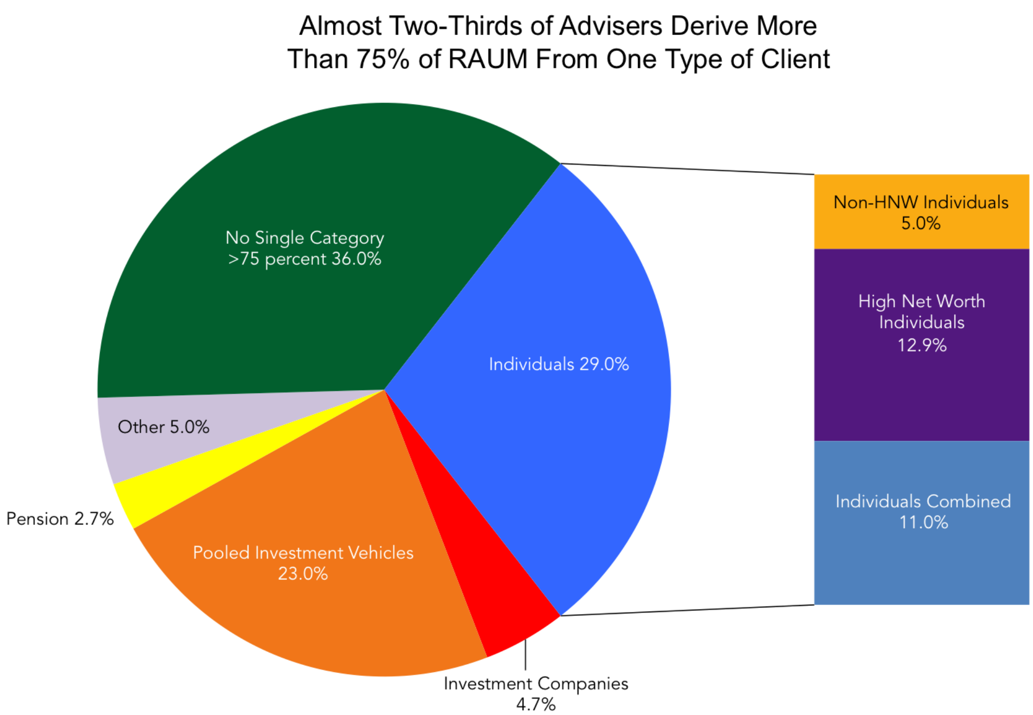



**Chart 9: Concentration by Type of Adviser Clientele**

[9] Given that advisers report ranges (*i.e.*, whether none, up to 25%, up to 50%, up to 75%, or more than 75% of the adviser's RAUM is attributable to certain client types), this statistic is a combination of direct and other responses. In our data set, 1,484 advisers report more than 75% for high net worth individuals and 572 advisers report more than 75% for individuals other than high net worth. Another 1,266 advisers report ranges that, when combined as minimum values, indicate that more than 75% of their RAUM is attributable to a combination of the two categories. An adviser would fit this last category, for example, by indicating that up to 50% of RAUM came from high net worth individuals and up to 75% came from other individuals. In that case, more than 25% of the adviser's RAUM came from high net worth individuals and more than 50% came from other individuals, so it must be the case that more than 75% came from a combination of the two.

# Custody of Client Assets

Form ADV includes a number of questions about the custody of client assets. These questions—and the investment adviser custody rule, Rule 206-4(2) under the Advisers Act[10]—continue to be a source of confusion for advisers. Indeed, a 2013 *Risk Alert* published by the SEC's Office of Compliance Inspections and Examinations (OCIE) emphasized that non-compliance with the custody rule, as amended in 2009, was among one of the most common issues found in routine investment adviser examinations and that, in fact, many advisers failed to realize they even had custody as defined in the rule.

The confusion stems from the fact that while advisers in general are prohibited from having physical custody of client assets, the custody rule may "deem" them to have custody under certain circumstances. Many of the questions in Form ADV relate to this "deemed" custody, although to complicate matters further, advisers that are deemed to have custody for certain types of reasons (such as the ability to deduct fees) are not required to answer certain custody questions on Form ADV and are therefore not reflected in the data we discuss below, unless otherwise indicated.

Given this backdrop, Chart 10 shows that the number of advisers reporting that they or a related person had or were deemed to have custody increased by 251 to 4,954 in 2015 compared to 4,703 in 2014.[11] Although that represents a nominal increase of 5.3%, the overall percentage of such advisers remained steady at 43.2% in both 2014 and 2015.

| Category | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| | # of Advisers | % of Advisers | # of Advisers | % of Advisers | # of Advisers | % of Advisers |
| Adviser has custody of client cash/bank accounts | 3,157 | 30.0% | 3,396 | 31.2% | 3,666 | 32.0% |
| Adviser has custody of securities | 3,103 | 29.5% | 3,337 | 30.6% | 3,610 | 31.5% |
| Related person(s) has custody of client cash/bank accounts | 3,013 | 28.6% | 3,171 | 29.1% | 3,321 | 28.9% |
| Related person(s) has custody of securities | 2,967 | 28.2% | 3,118 | 28.6% | 3,290 | 28.7% |
| Adviser and/or related person(s) has custody of advisory client assets (answered yes to any of the above) | 4,530 | 43.0% | 4,703 | 43.2% | 4,954 | 43.2% |

**Chart 10: Custody of Client Assets**

[10] Under the 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.

[11] 23 advisers reported not having custody, but went on to report assets and/or clients with respect to which the advisers were deemed to have custody. These advisers are not included in this section, but are included in the rest of the report.

About a third of investment advisers (3,800 or 33.1%) reported having custody of client cash, bank accounts and/or securities[12]. Of these, however, only 78 advisers—0.7% of all advisers—reported acting as a "qualified custodian" in connection with their advisory services, meaning that they had actual physical custody of client assets. In fact, given the prohibition on having physical custody, each of these advisers also is either a broker-dealer or bank and acts as a custodian in one of those other capacities. This already uncommon practice is becoming increasingly rare. The universe of 78 firms is down 35.0% since 2011, when 120 firms reported acting in such a capacity.

Similarly, the number of advisers reporting that a related person acts as a qualified custodian also continued to trend downward, to 402 advisers in 2015. Of these, 179 firms reported being able to demonstrate that the related person is operationally independent. These firms are not required to obtain a surprise examination for client funds or securities maintained at the related qualified custodian.

It is worth noting that private fund advisers report a high incidence of custody of client assets because a firm that acts as both adviser and general partner (or has a related person that serves as general partner) to a limited partnership is deemed to have custody. Indeed, of advisers that identified themselves as advisers to private funds, 86.4% also reported that they or a related person have custody of client assets.

| RAUM Category | Number of Advisers | Advisers with Custody | | Custodied Assets | | Clients | |
|---|---|---|---|---|---|---|---|
| | | Number | Percent | Total Value | Average | Number | Average |
| < $25m | 910 | 82 | 9.0% | 130,675,982,293 | 1,593,609,540 | 278,634 | 3,398 |
| $25 < 100m | 890 | 180 | 20.2% | 7,343,298,134 | 40,796,101 | 167,840 | 932 |
| $100m < 1b | 6,381 | 1,807 | 28.3% | 344,337,400,174 | 190,557,499 | 74,715 | 41 |
| $1b < 5b | 2,001 | 1,003 | 50.1% | 981,355,803,051 | 978,420,541 | 279,327 | 278 |
| $5b < 10b | 463 | 276 | 59.6% | 752,827,066,402 | 2,727,634,299 | 309,383 | 1,121 |
| $10b < 50b | 596 | 328 | 55.0% | 2,562,609,020,954 | 7,812,832,381 | 1,134,627 | 3,459 |
| $50b < 100b | 104 | 56 | 53.8% | 896,505,017,619 | 16,009,018,172 | 413,209 | 7,379 |
| ≥ $100b | 128 | 68 | 53.1% | 3,552,574,213,620 | 52,243,738,436 | 4,478,833 | 65,865 |
| All Advisers | 11,473 | 3,800 | 33.1% | 9,228,227,802,247 | 2,428,481,001 | 7,136,568 | 1,878 |

**Chart 11: Value of Assets and Number of Clients for Custody Accounts**

Chart 11 shows the number and value of assets with respect to which advisers are deemed to have custody by RAUM category. Overall, the average value of such assets reported per investment adviser increased by 4.7% from 2014 to 2015, while the average number of clients of whose assets advisers are deemed to have custody increased slightly by 1.6%, from 1,849 in 2014 to 1,878 in 2015.

[12] As shown in the first two rows of Chart 10, advisers separately report whether they have custody of 1) client cash or bank accounts and 2) securities. There is substantial overlap in this data, as nearly all advisers who report having custody of client cash or bank accounts also report having custody of securities.

| Control | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| | # 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. | 1,092 | 10.4% | 1,078 | 9.9% | 1,093 | 9.5% |
| 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. | 3,652 | 34.7% | 3,806 | 34.9% | 4,003 | 34.9% |
| An independent public accountant conducts an annual surprise examination of client funds and securities. | 1,374 | 13.0% | 1,418 | 13.0% | 1,499 | 13.1% |
| 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. | 515 | 4.9% | 472 | 4.3% | 470 | 4.1% |

### Chart 12: Controls Required by Custody Rule

Chart 12 shows the controls required by the custody rule. As noted in footnote 10, among other requirements, the rule stipulates that advisers with custody of client funds or securities must undergo an annual surprise custody examination by an independent public accountant. According to the 2015 data, 13.1% (1,499) of all SEC-registered investment advisers have a surprise custody audit of client funds and/or securities. However, there is an exception from this requirement—known as the "audit exception"—for advisers to private pooled vehicles if an independent public accountant audits the pool annually and distributes the audited financial statements to each investor in the pool within 120 days (180 days for funds of funds) of the fiscal year end. Overall, 34.9% (4,003) of all advisers in 2015 reported compliance with the audit exception. Many of these are private fund advisers. Indeed, only 609 out of 4,350 private fund advisers did not report that an independent public accountant annually audits at least one of the pooled investment vehicles they manage and the audited financial statements are distributed to the investors in the pools.[13]

As noted above, most of the custody questions in Form ADV do not apply to advisers that are deemed to have custody for certain types of reasons, such as the ability to deduct fees. In response to the one broader question on Form ADV, 5,723 advisers reported that they deal with qualified custodians (*e.g.*, banks or broker-dealers, including related custodians) on behalf of their clients. This would include all advisers deemed to have custody of client assets, even those who only have the ability to deduct fees. These advisers, on average, deal with 4.4 qualified custodians on behalf of their clients. Some advisers have more relationships, as 194 advisers reported interfacing with 20 or more qualified custodians on behalf of their clients. Only 38 advisers, however, reported interfacing with 50 or more qualified custodians.

[13] Further, out of 30,342 private funds reported, only 3,361 funds are not subject to an annual audit.

## Private Funds

In 2015, 4,350 advisers (37.9%) reported advising 30,342 private funds, 26.1% of which are funds of funds. The raw numbers of private funds increased slightly from 2014, but as a percentage of the now larger industry, the percentage declined slightly (in 2014 there were 4,156 advisers or 38.1%, advising 28,429 private funds, 26.8% of which were funds of funds).[14]

Hedge funds and private equity funds continue to represent the largest portions of the private funds group, comprising 72.2% of all reported private funds, with hedge funds comprising 37.9% and private equity funds 34.3%. The total gross asset value of reported private funds is approximately $10.4 trillion (a 9.4% increase above 2014), more than 15.5% of all reported RAUM with an average gross asset value of $341.2 million. The median gross asset value, on the other hand, is $53.7 million. The difference between the median and 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 145.

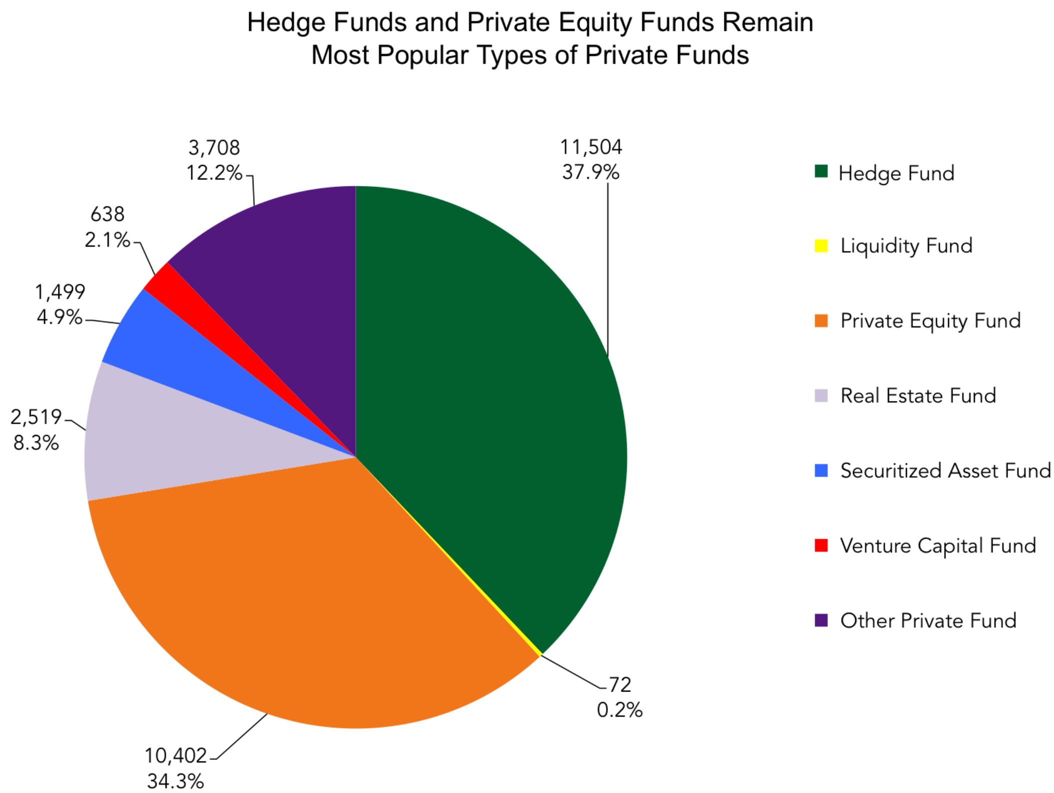



**Chart 13: Number of Private Funds by Fund Type**

[14] Section 7.B(1) of Schedule D of Form ADV, Part 1 asks private fund advisers questions relating to each fund's type, gross asset value, number of owners, service providers, and a number of other areas. 4,350 advisers reported being "an adviser to any private fund" and 4,121 advisers reported advising at least one private fund. 660 advisers reported advising at least one private fund that is reported by another adviser.

# Investment Adviser Compensation

Although advisers may be compensated in a number of ways, asset-based fees continue to dominate 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 clients' RAUM.

| Category of IA Compensation | 2013 | | 2014 | | 2015 | |
|---|---|---|---|---|---|---|
| | # of Advisers | % of All Advisers | # of Advisers | % of All Advisers | # of Advisers | % of All Advisers |
| Percentage of Client's AUM | 10,011 | 95.0% | 10,332 | 94.8% | 10,902 | 95.0% |
| Hourly Charges | 2,933 | 27.8% | 3,057 | 28.1% | 3,224 | 28.1% |
| Subscription Fees | 124 | 1.2% | 119 | 1.1% | 116 | 1.0% |
| Fixed Fees | 4,374 | 41.5% | 4,521 | 41.5% | 4,765 | 41.5% |
| Commissions | 570 | 5.4% | 546 | 5.0% | 531 | 4.6% |
| Performance Based Fees | 4,095 | 38.9% | 4,200 | 38.5% | 4,415 | 38.5% |
| Other | 1,450 | 13.8% | 1,559 | 14.3% | 1,667 | 14.5% |

**Chart 14: Investment Adviser Compensation**

In addition, 4,415 advisers charge performance based fees. This is not surprising, given that there are 4,350 private fund advisers. Performance-based fees are nearly universal in the private fund context.

# Employees of Investment Advisory Firms

In 2015, SEC-registered advisers added 31,157 additional jobs to a reported total of 750,795 non-clerical employees, a 4.3% increase in employment from 2014. Of these employees, 376,509 provide investment advisory services (including research). Advisers collectively reported 359,862 employees who are also registered representatives of a broker-dealer. The number of employees in these categories increased by 4.6% and 1.3%, respectively, and in addition, the percentage of advisers that reported no registered representative (8,048) remained relatively flat from 70.3% in 2014 to 70.1% in 2015.

| Number of Employees | Number of Advisers | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| 1 to 5 | 3,620 | 3,680 | 3,855 |
| 6 to 10 | 2,465 | 2,536 | 2,721 |
| 11 to 50 | 3,211 | 3,365 | 3,513 |
| 51 to 250 | 922 | 986 | 1,033 |
| 251 to 500 | 131 | 146 | 162 |
| 501 to 1,000 | 87 | 85 | 93 |
| More than 1,000 | 97 | 97 | 96 |

| | Number of Employees | | |
|---|---|---|---|
| | 2013 | 2014 | 2015 |
| Total | 707,097 | 719,638 | 750,795 |
| Average | 67 | 66 | 65 |
| Median | 8 | 9 | 8 |

**Chart 15: Investment Adviser Non-Clerical Employees**

Even though many smaller advisers have now switched to state regulation, the data confirm that most SEC-registered investment advisers are small businesses. In fact, 57.3% (6,576) reported that they employ 10 or fewer non-clerical employees, and 87.9% (10,089) reported that they employ 50 or fewer non-clerical employees. These segments increased by 360 and 508 advisers, respectively, but due to growth across all segments, both of these percentages are very similar to those reported last year (57.1% and 87.9%). One interesting data point is that the number of advisers reporting that they have no non-clerical employees increased from 81 to 103.

| 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 | 216 | 8,048 | 5,569 | 10,321 | 8,885 |
| 1 to 5 | 5,839 | 1,788 | 3,859 | 885 | 1,815 |
| 6 to 10 | 2,316 | 525 | 975 | 118 | 267 |
| 11 to 50 | 2,412 | 726 | 766 | 107 | 273 |
| 51 to 250 | 532 | 227 | 186 | 35 | 129 |
| 251 to 500 | 79 | 55 | 46 | 2 | 36 |
| 501 to 1,000 | 28 | 42 | 23 | 1 | 21 |
| More than 1,000 | 51 | 62 | 49 | 4 | 47 |
| Total | 376,509 | 359,862 | 276,625 | 20,400 | 240,114 |
| Average | 33 | 31 | 24 | 2 | 21 |
| Median | 5 | 0 | 1 | 0 | 0 |

**Chart 16: Activities by Investment Adviser Employees**

# Location of Investment Advisers

The locations of the main offices of investment advisers are concentrated in a relatively small number of states. The distribution likely is driven by several factors, including access to financial markets, population and client net worth. Not surprisingly, New York and California top the list with 2,306 (20.1%) and 1,323 (11.5%) advisers, respectively. Texas, Massachusetts, and Illinois round out the top five.

It is clear that New York,[15] 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 adviser locations. Connecticut's ranking is also influenced by the concentration of hedge funds located in the Greenwich and Stamford areas.

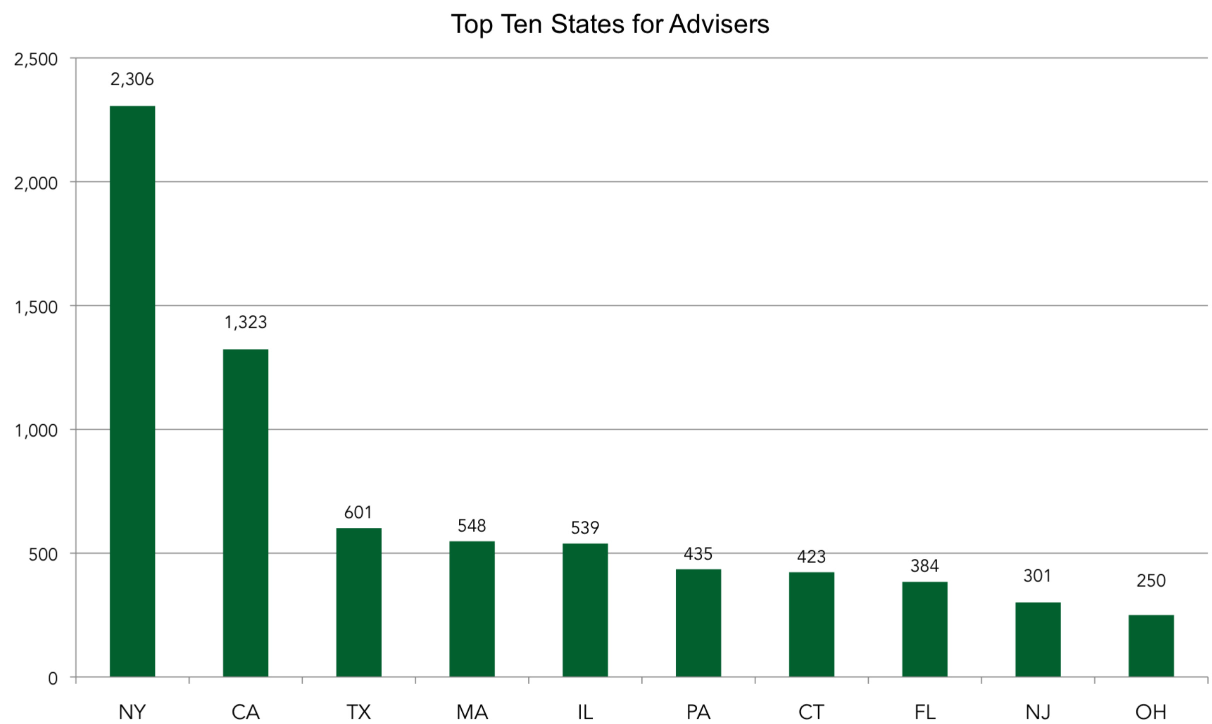



**Chart 17: Primary Location of Investment Adviser Headquarters**

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 median household income and is the home of many advisers in the mutual fund industry.

[15] 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 qualify for registration with the SEC. The total number of SEC-registered advisers includes 501 such advisers in New York.

| State | Advisers | | | Population | | | Median Household Income | |
|---|---|---|---|---|---|---|---|---|
| | Number of Advisers | Rank | Percent of Total | Population (2014 Estimate) | Rank | Percent of Total | Median Household Income (Dollars) | Rank |
| NY | 2,306 | 1 | 20.1% | 19,746,227 | 4 | 6.2% | $51,554 | 27 |
| CA | 1,323 | 2 | 11.5% | 38,802,500 | 1 | 12.2% | $56,883 | 14 |
| TX | 601 | 3 | 5.2% | 26,956,958 | 2 | 8.5% | $52,169 | 26 |
| MA | 548 | 4 | 4.8% | 6,745,408 | 14 | 2.1% | $64,373 | 6 |
| IL | 539 | 5 | 4.7% | 12,880,580 | 5 | 4.0% | $54,044 | 22 |
| PA | 435 | 6 | 3.8% | 12,787,209 | 6 | 4.0% | $52,768 | 25 |
| CT | 423 | 7 | 3.7% | 3,596,677 | 29 | 1.1% | $66,905 | 3 |
| FL | 384 | 8 | 3.3% | 19,893,297 | 3 | 6.2% | $47,114 | 39 |
| NJ | 301 | 9 | 2.6% | 8,938,175 | 11 | 2.8% | $64,670 | 5 |
| OH | 250 | 10 | 2.2% | 11,594,163 | 7 | 3.6% | $45,887 | 40 |

**Chart 18: Investment Adviser Data for Top Ten States**

Florida has swapped positions with New York in the population rankings and is now third.  Both states, along with Texas and Ohio, recorded increases in the percent of the investment adviser community that is headquartered in their states. The percentage of advisers located in California, Pennsylvania and Connecticut decreased slightly.

# Other Characteristics of Investment Advisory Firms

## Other Business Activities

Advisers' engagement in business activities other than investment advice remained largely unchanged from 2014 with a few notable exceptions. Despite a 5.3% growth in the number of investment advisers, the number of those that are also broker-dealers stayed constant at 456 and the number of advisers that report being a registered representative of a broker-dealer only increased by 13 to 472. On the other hand, the number of advisers that are also an insurance broker or agent increased from 883 to 937 this year.

The number of advisers that are also commodity pool operators (CPOs) or commodity trading advisors (CTAs) continued to increase. This year, 16.1% (1,847) investment advisers reported also being a CPO or CTA, a net increase of 0.9% (187) from 2014. While the rate of increase has slowed, 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 2011 clarification in Form ADV that this question applies to both registered and exempt CPOs and CTAs.

| Firm's Non-Advisory Business | Number of Advisers | Percentage of Advisers |
|---|---|---|
| Commodity pool operator or commodity trading advisor | 1,847 | 16.1% |
| Insurance broker or agent | 937 | 8.2% |
| Registered representative of a broker-dealer | 472 | 4.1% |
| Broker-dealer | 456 | 4.0% |
| Other financial product salesperson | 214 | 1.9% |
| Accountant or accounting firm | 158 | 1.4% |
| Registered municipal advisor | 63 | 0.5% |
| Real estate broker, dealer, or agent | 49 | 0.4% |
| Trust company | 24 | 0.2% |
| Futures commission merchant | 22 | 0.2% |
| Bank | 22 | 0.2% |
| Lawyer or law firm | 22 | 0.2% |
| Registered security-based swap dealer | 1 | 0.0% |
| Major security-based swap participant | 0 | 0.0% |

**Chart 19: Other Business Activities of Investment Advisers**

As in years past, most advisers focus primarily on providing investment advice to clients. In 2015, 6,910 advisers (60.2%) reported that they are not actively engaged in any other business other than giving investment advice about securities.

## Financial Industry Affiliations

Form ADV requires advisers to disclose information relating to their affiliations with other persons in the financial industry. In 2015, 2,518 advisers (21.9%) reported only one financial industry affiliation, 1,936 (16.9%) reported two affiliations, 1,161 (10.1%) reported three affiliations and 1,637 (14.3%) reported between 4 and 14 affiliations.

| Related person is: | Number of Advisers | Percentage of Advisers |
|---|---|---|
| Other investment adviser (including financial planners) | 4,307 | 37.5% |
| Sponsor, general partner, managing member (or equivalent) of pooled investment vehicles | 4,153 | 36.2% |
| Broker-dealer, municipal securities dealer, or government securities broker or dealer | 2,381 | 20.8% |
| Commodity pool operator/trading advisor (whether registered or exempt) | 2,082 | 18.1% |
| Insurance company or agency | 1,843 | 16.1% |
| Banking or thrift institution | 824 | 7.2% |
| Trust company | 783 | 6.8% |
| Accountant or accounting firm | 755 | 6.6% |
| Pension consultant | 645 | 5.6% |
| Sponsor or syndicator of limited partnerships (or equivalent), excluding pooled investment vehicles | 636 | 5.5% |
| Real estate broker or dealer | 526 | 4.6% |
| Lawyer or law firm | 445 | 3.9% |
| Registered municipal advisor | 362 | 3.2% |
| Futures commission merchant | 235 | 2.0% |
| Registered security-based swap dealer | 72 | 0.6% |
| Major security-based swap participant | 8 | 0.1% |

**Chart 20: Financial Industry Affiliations**

In 2015, 4,221 advisers (36.8%) reported having no financial industry affiliations. As in years past, the most common affiliation among registered investment advisers is with another investment adviser, with 37.5% reporting such an affiliation. In a close second and gaining by a net of 0.8%, 36.2% of advisers now report an affiliation with a sponsor, general partner, or managing member (or equivalent) of pooled investment vehicles. 874 (an increase from 848 last year) 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.

## Broker-Dealer Affiliations

Included in the numbers cited under "Other Business Activities" and "Financial Industry Affiliations" are broker-dealer relationships, where investment advisers are either dually registered as broker-dealers or are affiliated (through common ownership and/or control) with broker-dealers.

Relatively few firms—only 456, or 3.97%—are dually registered advisers (those entities registered both as SEC investment advisers and SEC/FINRA broker-dealers). This number has not changed this year after decreasing slightly, from 480 in 2012, to 477 in 2013 and 456 in 2014.

Those advisers affiliated with broker-dealers increased slightly to 2,381 this year after a trend of minor decline in recent years: 2,361 in 2012, 2,318 in 2013 and 2,323 in 2014.

It is interesting that these numbers do not appear to be impacted in any way by the downwardly trending broker-dealer numbers. FINRA has reported that membership in the SRO has declined approximately 24%, from "about" 5,400 in 2003 to 4,031 as of May 2015. Based on available information, it is likely that this trend will continue during the coming years.

While the number of broker-dealer firms is declining, it appears that registered representatives are having no difficulty finding new homes, indicating significant consolidation into fewer, larger firms has occurred while demand for the services offered has remained constant. Since 2003, FINRA reports have indicated a high of 673,000 registered reps (2007) to a low of 613,000 (2010), with the last several years settling in at around 630,000. As of May 2015, FINRA oversaw 638,322 registered securities representatives.[16] More than half of these registered representatives appear to be employed by SEC-registered dual registrants (SEC-registered advisers reported employing 359,862 registered representatives in 2015).

[16] *See* http://www.finra.org/newsroom/statistics.

# Disciplinary Information

It is difficult to draw broad conclusions from the disciplinary disclosure information provided in Form ADV, Part 1. For example, Item 11 asks many "true or false" questions relating to disciplinary events, but most of these questions are fairly broad and imprecise, requiring delving into specifics of each such event to have any clear understanding of what was involved. 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 requiring firms to now specify whether any of the events reported involve the firm or its supervised persons.

Subject to these limitations, we make the following observations:

- 9,936 of registered investment advisers (86.6%) reported no disciplinary history at all, which is slightly higher than last year, when 9,380 advisers (86.1%) reported no disciplinary history.
- While newly registered advisers made up 10.1% of the total number of investment advisers, the number of newly registered advisers reporting disciplinary history makes up only 6.1% of the 1,537 advisers now reporting such history.
- Less than one percent of advisers reported that it or an advisory affiliate had been charged with a felony. Of the 90 firms that did so, only 45 (0.4% of all advisers) reported having been convicted or having pled guilty or nolo contendere ("no contest") to the charges in court.
- 165 firms or advisory affiliates (1.4%) reported that the SEC or the Commodity Futures Trading Commission (CFTC) found them to have made a false statement or omission and 455 firms (4.0%) to have been involved in the violation of SEC or CFTC regulations or statutes. Only 13 firms reported that they or an advisory affiliate has been found by the SEC or CFTC to have been the cause of an investment-related business having its authorization to conduct business denied, suspended, revoked, or restricted.
- Of the 1,537 advisers reporting at least one disciplinary event, 792 advisers reported that at least one of the events involved the firm or its supervised persons (as opposed to an affiliate).[17]
- Of the 1,154 advisers newly registered since our last report, 93 (8.1% of new advisers) reported a disciplinary event, and 46 (4.0% of new advisers) reported that the event involved them or a supervised person. Private fund advisers make up 362 of all newly registered advisers (31.4%), and accounted for 27 of the 93 new advisers (29.0%) that reported a disciplinary event.

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[17] Curiously, however, an additional 20 advisers reported that a disciplinary event outlined "below"—in Item 11 of Form ADV—involved them or a supervised person (answering "yes" to Item 11), but did not mark any specific disciplinary events in response to the subsections of Item 11. These advisers are included in calculating the aggregate number of advisers reporting no disciplinary history (9,936).

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