NRS™
Compliance Confidence

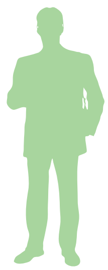
INVESTMENT ADVISER ASSOCIATION

2020

Evolution Revolution

A Profile of the Investment Adviser Profession

The 2020 “Typical”* SEC-Registered Investment Adviser



Most of its clients are individuals

Highly likely to have at least one pension/profit sharing plan as a client

$341 million

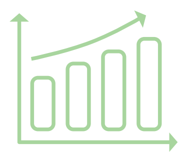
in regulatory assets under management

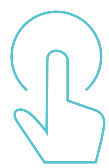
8

employees

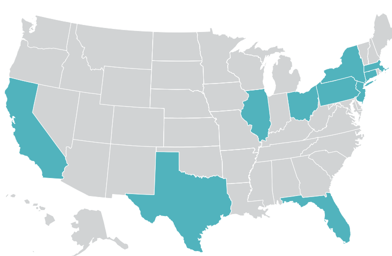
141

accounts

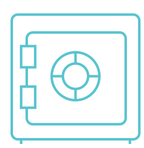




Exercises discretionary authority over most accounts



U.S.-based limited liability company headquartered in NY, CA, TX, MA, IL, FL, PA, CT, NJ, or OH



Does not have actual physical custody of client assets or securities

(median)

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 member firms manage more than $25 trillion in assets for a wide variety of individual and institutional clients, including pension plans, trusts, mutual funds, private funds, endowments, foundations, 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 www.investmentadviser.org.

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The Investment Adviser Profession:

Strong, Growing, and Critically Important to Investors, our Economy, and Capital Markets

The Investment Adviser Association and National Regulatory Services are pleased to present our 20th annual *Evolution Revolution* report, the most comprehensive profile of SEC-registered investment advisers available. This year's report contains data on 13,494 firms that manage $97.2 trillion for more than 51.8 million clients (including clients for which advisers have RAUM and clients for which advisers do not have RAUM). This dynamic profession continues to be critically important to investors, our economy, and the capital markets.

Indeed, the more than 42 million clients benefitting from investment advice remains near the all-time high of 43 million clients in 2019. To meet this continued demand for investment advice, investment advisers employ a total of 871,971 non-clerical workers, a 4.4 percent increase over the past year. Over 450,000 of these workers perform investment advisory functions. Thus, investment advisers remain impressive providers of high-quality jobs to the economy, including in small businesses. The investment adviser profession has always been dominated by small businesses and this year was no exception, as over 11,800 firms– almost 88.0 percent – reported employing 50 or fewer non-clerical individuals.

This year's report is based on data from before the coronavirus (COVID-19) was declared a global pandemic in March 2020. The pandemic upended business as usual for the advisory community and the entire global economy. Advisory firms implemented their business continuity plans and pivoted to a work-from-home posture almost overnight while continuing to serve their clients with a calm and steady hand. As a result of the dramatic shift in firms operating from many more physical locations and related changes in their operational structures, advisers will need to continue to devote more resources to technology and continued operational resilience measures.

On the regulatory front, the SEC's Standards of Conduct rulemaking package became effective in June 2020. The package was adopted to raise the standard of conduct for broker-dealers through new Regulation Best Interest, reaffirm the fiduciary duty under the Advisers Act, and reduce investors' confusion as to the services offered by and standards applicable to their financial professional through a new client or customer relationship summary, Form CRS. While it remains to be seen how the SEC will implement and enforce Regulation Best Interest and whether the package will ameliorate investor confusion, this significant development may continue to accelerate the secular trend, as documented in this report over the years, of an increase in the number of advisory firms, clients, employees, and investment advisory representatives, and a reduction in the number of registered broker-dealers and registered representatives.

2020 Evolution Revolution provides a full portrait of the SEC-registered investment adviser profession, presenting data on the number of investment advisers, regulatory assets under management (RAUM), employees, clients, custody of client assets, industry concentration, compensation, non-core business activities, financial industry affiliations, geographic concentrations, disciplinary information, and more.

It is our hope that our 2020 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
President & CEO
IAA

John Gebauer
President
NRS

Executive Summary

By all measures, the investment adviser profession is experiencing robust growth indicative of an attractive business model for financial services professionals and an expanding market for advisory services.

The number of SEC-registered investment advisers continues to grow at a steady pace – and has reached yet another record high. This report contains data on 13,494 SEC-registered advisers, reflecting a net increase of 3.9 percent since the 2019 report.

The advisory community continues to experience strong job growth, creating a record number of investment advisory positions. In 2020, SEC-registered advisers reported a total of 871,971 non-clerical employees – up 4.4 percent over 2019. Of these employees, more than half (451,536) provide investment advisory services (including research) – a healthy increase of over 15,000 since 2019.

The aggregate RAUM managed by SEC-registered advisers has grown to a record $97.2 trillion. RAUM managed by investment advisers grew 16.2 percent from $83.7 trillion in the 2019 report to $97.2 trillion this year.

While all SEC-registered advisers are fiduciaries providing investment advice to clients, the profession is highly diverse in size and type of firms, services offered, and clients served.

The vast majority of SEC-registered investment advisers are small businesses. Small businesses are the core of the investment adviser community. In 2020, 57.4 percent (7,749) of advisory firms reported that they employ 10 or fewer non-clerical employees, and 87.6 percent (11,819) reported employing 50 or fewer non-clerical individuals. At the opposite end of the spectrum, the largest 116 firms employ 53.7 percent of all non-clerical employees.

SEC-registered investment advisers serve more than 42 million clients. Individuals comprise the largest category of advisory clients. Individual clients (95.0 percent of total clients) – in particular, non-high net worth individuals (83.3 percent of total clients and 87.7 percent of individual clients) – comprise the vast majority of clients by a wide margin. High net worth individuals make up 11.7 percent of total clients. Investment advisers manage $12.8 trillion on behalf of individuals.

The bulk of RAUM resides in pooled vehicles. Registered investment companies ($33.3 trillion) and private pooled investment vehicles ($26.0 trillion) together represent $59.4 trillion – 61.1 percent – of the total $97.2 trillion RAUM. The number of private pooled investment vehicle clients is up by 4.9 percent.

Private equity funds are pulling away from hedge funds in popularity. In 2020, 4,840 advisers reported advising 40,742 private funds with a total gross asset value of $19.1 trillion, up from 4,520 advisers and 37,873 private funds and up from $14.9 trillion gross asset value in 2019. While the percentage of hedge funds and private equity funds was exactly equal four years ago, their popularity as a pool of choice continues to diverge, with private equity funds now making up over forty (41.2) percent of privately offered funds and hedge funds representing less than thirty (28.3) percent in the private fund space. The percentage of private funds that are private equity funds increased almost two percent since the 2019 report, while the percentage of hedge funds decreased by two percent, a rate of decrease similar to that from 2018 to 2019.

Digital advice platforms are expanding the market for advice. Two of the top five advisers as measured by number of non-high net worth individual clients served are digital advice platforms, representing 7.5 million clients, an increase of 2.7 million clients from our 2019 report. These clients tend to have lower – and in some cases zero – account balances.

Nearly three-quarters of advisers have RAUM attributable to separately managed accounts. 9,878 advisers (73.2 percent) have RAUM attributable to separately managed account clients.

Relatively few advisers engage in borrowing or derivative transactions in SMAs. 1,659 advisers (12.3 percent) engage in borrowing transactions on behalf of any of the separately managed account clients that they advise. 1,793 advisers (13.3 percent) engage in derivative transactions on behalf of any of the separately managed account clients that they advise.

What's in a Name? A Note on Terminology

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 firms and professionals, including agents representing life 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.

That said, the term "investment adviser" generally describes a broad range of companies and people who give advice about investing in securities. In addition to the term "investment adviser," these advisers may use other titles such as investment manager, wealth adviser, financial planner, investment counsel, asset manager, wealth manager, or portfolio manager. Investment advisers typically provide ongoing management of investments based on the client's objectives, often with the client giving the adviser authority to make investment decisions without having to get prior approval from the client for each transaction (called discretionary authority). Throughout this report, the terms "investment adviser," "adviser," and "RIA" are used interchangeably to refer to an entity that is registered as an investment adviser with the SEC, based on the definition set forth in the Investment Advisers Act of 1940.[1] The term "supervised person of an investment adviser" is used to describe individuals who provide advice about investing in securities under the supervision of an SEC-registered investment adviser.

The terms "broker" and "broker-dealer" refer to companies in the business of buying and selling securities (called trading) on behalf of customers. Individual salespeople that are associated persons of brokerage firms are registered representatives of the brokerage firm. But these individuals also use many other titles, including financial consultant, financial professional, financial advisor, advisor, wealth manager, and investment consultant, subject to the new Regulation Best Interest restrictions discussed below.

As of June 30, 2020, compliance with the SEC's standards of conduct rulemaking package became required. New Regulation Best Interest and Form CRS require disclosures in retail communications about the registration status of broker-dealers, investment advisers, and their financial professionals. Use of the term "adviser" and "advisor" in a name or title by a broker-dealer that is not also registered as an investment adviser, or by an associated person that is not also a supervised person of an investment adviser, will now be presumed to be a violation of its obligation to disclose the capacity in which it is acting with respect to a recommendation.[2]

Enhanced Data Reporting: A Note About New Comparisons

This year's *Evolution Revolution* report is the third one in which we can compare new information reported on the amended version of Form ADV Part 1, which became effective on October 1, 2017. Trends are still emerging from these new questions in the amended Form ADV.

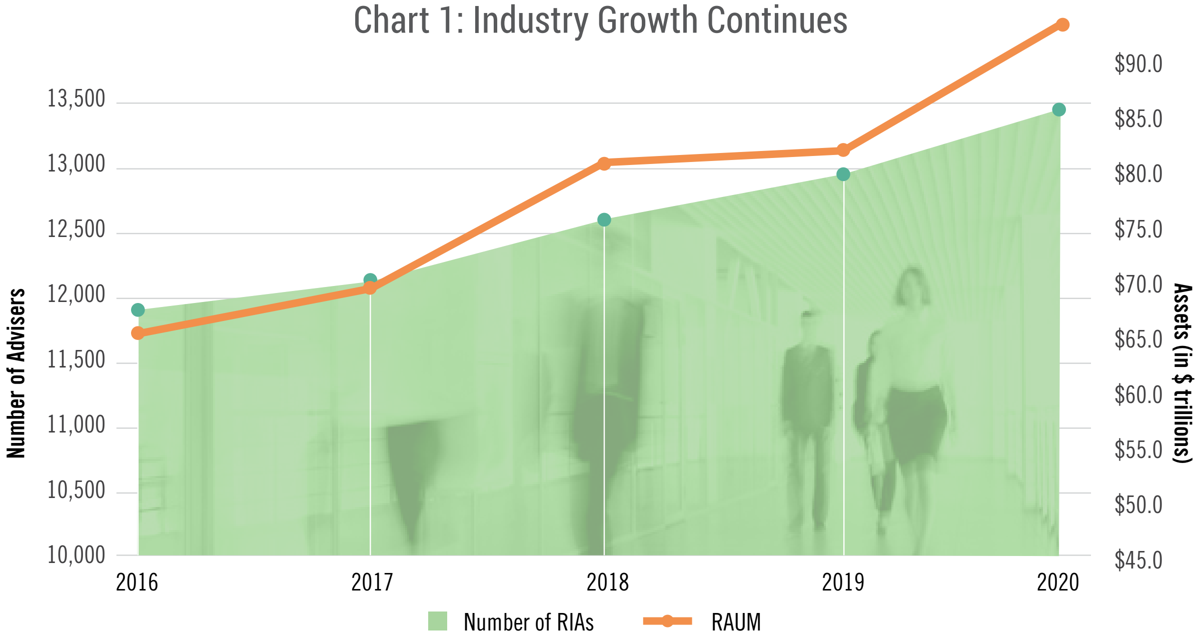
[1] Section 202 of the Investment Advisers Act defines an investment adviser as "any person who, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling 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.

[2] *See Regulation Best Interest: The Broker-Dealer Standard of Conduct,* Rel. No. 34-86031 (June 5, 2019), available at https://www.sec.gov/rules/final/2019/34-86031.pdf. *See also* SEC FAQs on Regulation Best Interest (last updated Aug. 4, 2020), available at https://www.sec.gov/tm/faq-regulation-best-interest.

Number of Investment Advisers

This report contains data on 13,494 SEC-registered investment advisers, which represents a net increase of 501 advisers or 3.9 percent since the 2019 report. This increase continues the trend from the previous two years, when there was a 3.3 percent increase in advisers in each of the two years. The aggregate RAUM managed by SEC-registered advisers is $97.2 trillion, a 16.2 percent increase from $83.7 trillion in 2019.

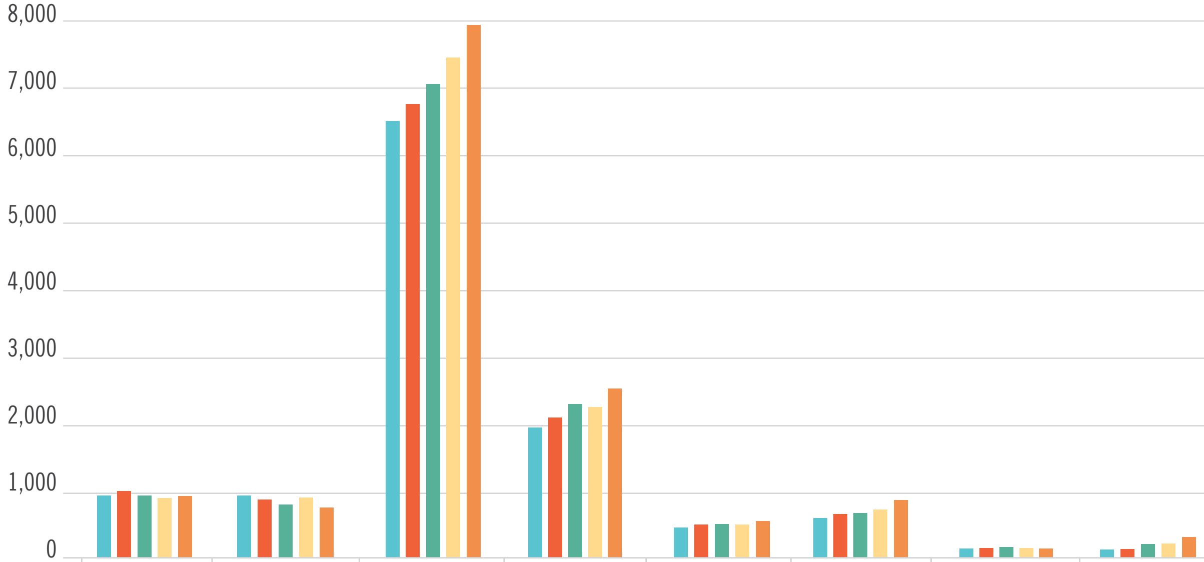
Chart 1: Industry Growth Continues



	2016	% Change	2017	% Change	2018	% Change	2019	% Change	2020	% Change
# of Advisers	11,847	3.3%	12,172	2.7%	12,578	3.3%	12,993	3.3%	13,494	3.9%
RAUM	66.8	0.2%	70.7	5.8%	82.5	16.7%	83.7	1.4%	97.2	16.1%

Chart 2: Number of SEC-Registered Investment Advisers by RAUM Category

2016-2020



	<$25m	$25-<100m	$100m-<1b	$1b-<5b	$5b-<10b	$10b-<50b	$50b-<100b	≥$100b
2016	987	994	6,585	1,998	450	596	116	121
2017	1,026	912	6,794	2,107	480	611	118	124
2018	958	852	7,064	2,302	489	644	122	147
2019	918	931	7,444	2,294	484	657	117	148
2020	942	809	7,794	2,458	513	689	114	175

As in past years, more than half (57.8 percent) of all SEC-registered advisers have RAUM between $100 million and $1 billion. Over three quarters (76.0 percent) of advisers have RAUM between $100 million and $5 billion. Almost every RAUM category experienced substantive growth in the number of advisers, with those over $100 billion showing the strongest growth, increasing by 18.2 percent. The only RAUM categories with decreases in the number of advisers were the $25 million to $100 million category (which decreased by 13.1 percent from 931 to 809), and the $50 billion to $100 billion category (which decreased by three advisers, or 2.6 percent, from 117 to 114 advisers). The number of advisers with RAUM under $25 million showed a slight increase during the period, of 2.6 percent from 918 to 942 advisers, after decreasing by 4.2 percent last year.

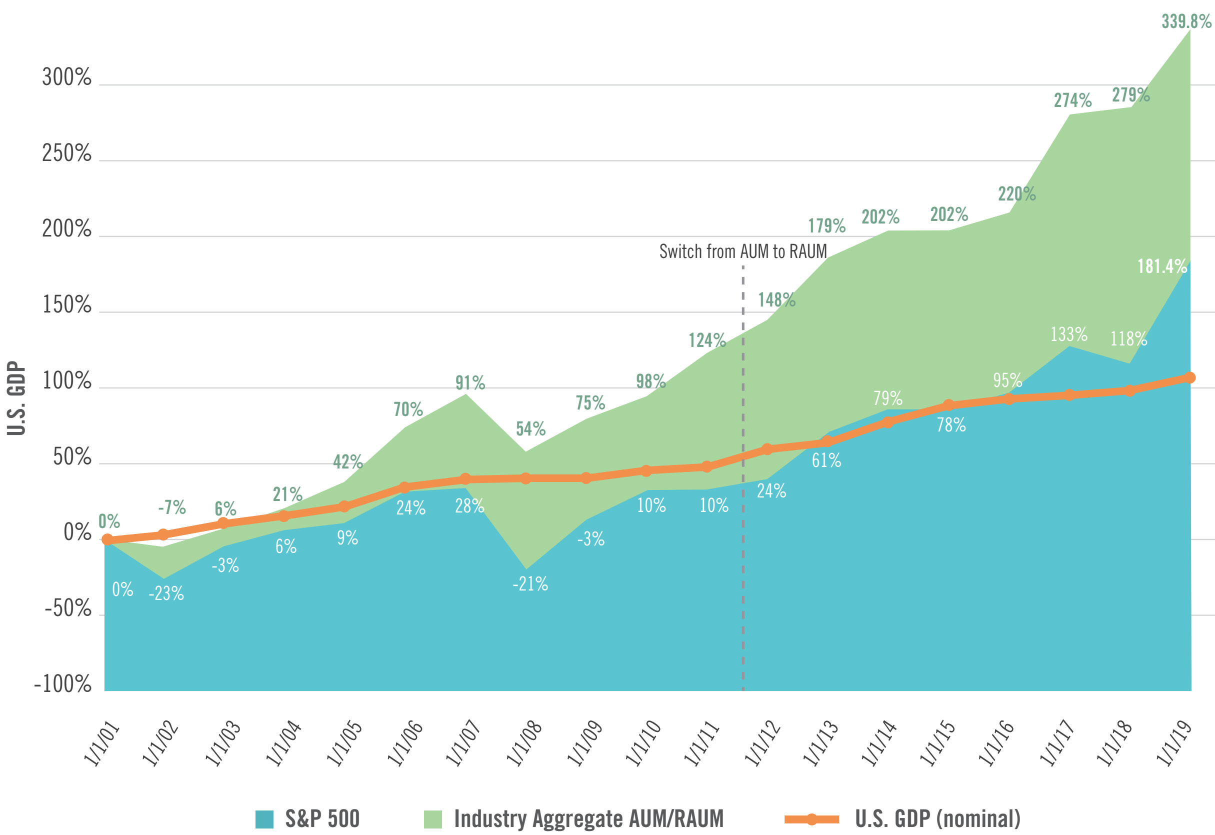
These patterns show the continued movement of firms from lower RAUM levels to higher levels. Much of the continued growth of larger advisers is due to recent trends in the merger and acquisition of small advisers into larger firms and the strong stock market performance in 2019.

Regulatory Assets Under Management

Regulatory assets under management reported in 2020 increased by 16.2 percent to $97.2 trillion from $83.7 trillion in 2019, a one-year growth of approximately $13.5 trillion. This RAUM growth is likely primarily a function of sustained strong stock market performance in 2019. Eleven firms – more than double the number in 2019 -- have now each surpassed $1 trillion in RAUM.[3]

The historical growth of the industry's aggregate assets under management (AUM) or RAUM (depending on the prevailing regulations) has been quite impressive since our first report in 2001. The $97.2 trillion RAUM that registered investment advisers now manage has nearly quadrupled 2001 AUM levels.[4] The total industry aggregate AUM/RAUM has grown 339.8 percent since 2001 – a compound annual growth rate (CAGR) of 8.57 percent. By way of comparison, during the same period, the S&P 500 Index and the U.S. Gross Domestic Product (nominal) produced cumulative growth of 181.4 percent (5.91 percent CAGR) and 102.5 percent (4.00 percent CAGR), respectively.

Chart 3: Total RAUM has Grown at a Faster Pace than the Overall Economy



[3] This figure does not include firms that have combined RAUM with affiliated SEC-registered advisers in excess of $1 trillion.

[4] In 2012, the methodology for calculating RAUM changed significantly from the methodology used to calculate AUM in previous years.

Since the first edition of *Evolution Revolution,* we have reported that the vast majority of assets are managed on a discretionary rather than a non-discretionary basis. This year in 2020, 91.8 percent of the total reported RAUM are discretionary assets, a very slight 0.4 percent decrease over last year but consistent with historical values that have ranged since 2001 from 87.9 percent to 92.1 percent.

SEEING CLIENT ASSETS IN A DIFFERENT LIGHT

641 advisers elect to compute client assets that they manage using a different method for purposes of their brochure (Form ADV Part 2A) than the method used to compute their RAUM in Form ADV Part 1 (which is used for making a bright line determination about whether an adviser must register with the SEC or with the states). This is up 1.1 percent from the 634 that reported doing so last year.

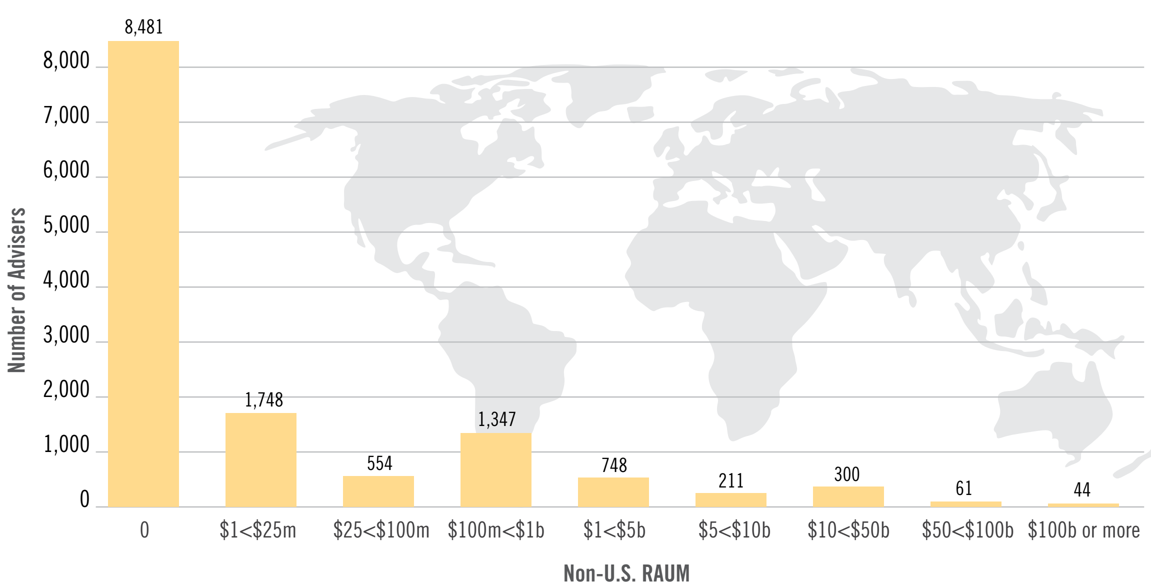
While permitted under Form ADV, and while these advisers comprise only 4.8 percent of SEC-registered advisers, if more firms continue to use a different method for computing assets in their brochure, the value of brochure comparisons between two advisers may be diminished.

RAUM is the best metric available to measure the relative size of the investment adviser market on a year-to-year basis. RAUM is rigorously calculated by each adviser according to the same rules. As an absolute measure, however, RAUM has several flaws. First, as we've reported in past years, the aggregate RAUM reported across the industry overstates actual RAUM because more than one adviser can "claim" the same assets. For example, an adviser that allocates assets among mutual funds on a discretionary basis and the adviser to those funds will both correctly include those assets in their RAUM calculation. Similarly, a sub-adviser to a fund will count the assets it sub-advises as RAUM, as will 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 and proprietary assets.[5]

NON-U.S. RAUM

34.8 percent of advisers reported having RAUM attributable to clients that are non-U.S. persons, which is down from 37.7 percent in 2019.

Chart 4: RAUM Attributable to Non-U.S. Clients

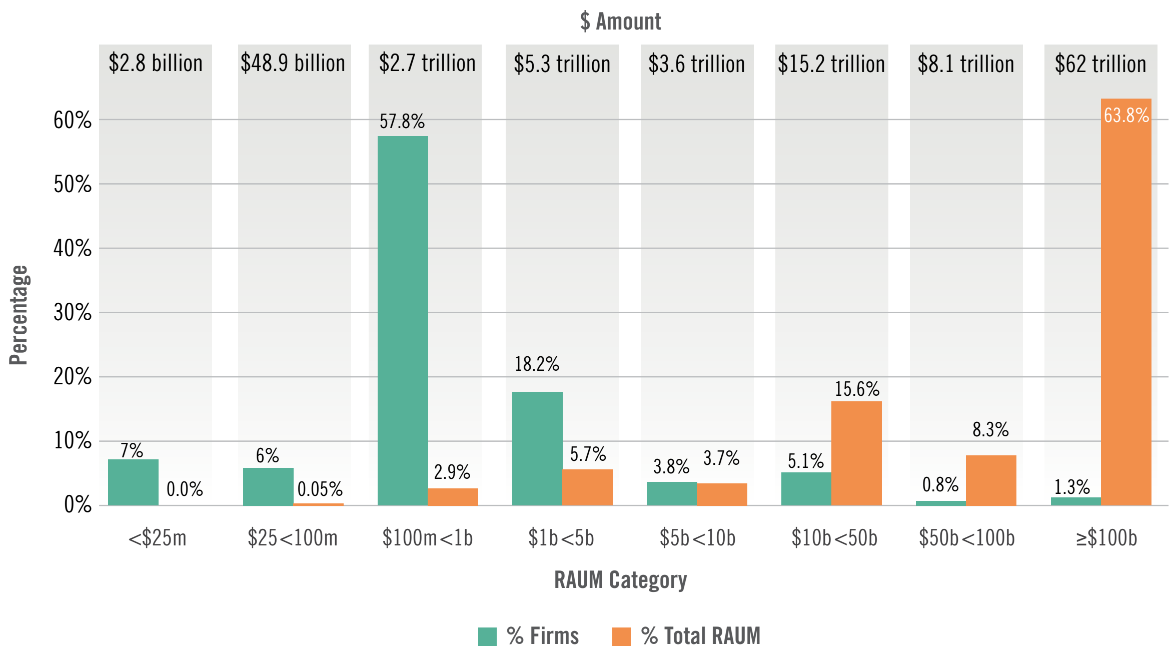


[5] Additionally, the timing of Form ADV filings can impact the accuracy of the aggregate RAUM. Form ADV requires advisers to calculate and report their RAUM within 90 days of the filing. Most advisers calculate their RAUM as of December 31, but 748 (5.5 percent) have a different fiscal year end. Depending on the timing of the RAUM calculations made by each adviser, the aggregate RAUM may include some temporal variations in market value.

Industry Concentration

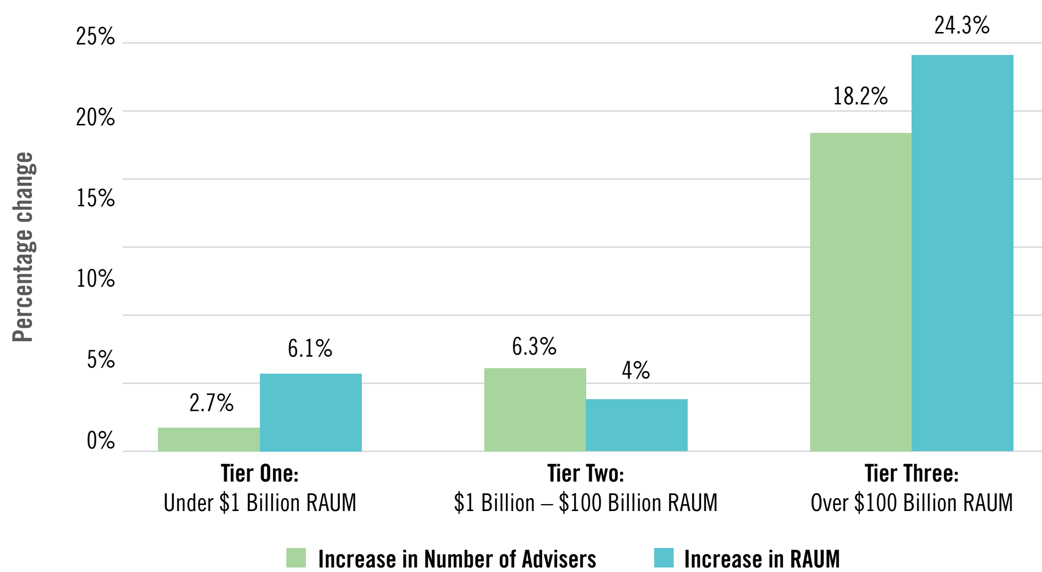
Industry concentration continued to increase this year, with a very small group of very large advisers managing the majority of all reported RAUM. The number of advisers that reported managing over $100 billion in RAUM grew by 27 advisers to 175, or 18.2 percent. Despite representing only 1.3 percent of SEC-registered advisers, these 175 firms collectively managed 63.8 percent of all reported RAUM, or $62 trillion. This is an increase of 24.3 percent compared to RAUM reported by those who managed over $100 billion RAUM last year ($49.9 trillion). Although the number of advisers that reported managing less than $1 billion RAUM also increased by 2.7 percent, this percentage increase was much lower than the percentage growth of those managing over $100 billion RAUM.

Chart 5: The Industry Barbell – The Largest Firms Manage More than Half the Assets



When viewed in tier groups of under $1 billion, $1 billion to $100 billion, and over $100 billion, the data show a more substantial increase than last year in the larger tier group for number of advisers and RAUM, while the smaller and middle tier groups increased only slightly in both number of advisers and RAUM. The smaller tier (tier one: under $1 billion) increased in number of advisers by 2.7 percent and in RAUM by 6.1 percent. The middle tier (tier two: $1 billion to $100 billion) increased in number of advisers by 6.3 percent, while the RAUM managed by the tier group increased by 4.0 percent. The larger tier (tier three: over $100 billion) grew significantly in number of firms by 18.2 percent (from 148 to 175) and RAUM increased by 24.3 percent, compared to last year's 2.2 percent.

Chart 6: Smaller and Larger Advisers Experience Relatively More Growth



Clients of Investment Advisers

Form ADV requires advisers to report the approximate number of their clients and the amount of RAUM attributable to each type of client. The data provide several insights into the industry.

Advisers by Number of Clients

SEC-registered advisers in 2020 reported a total of 42.1 million clients for which they have RAUM, compared to 43 million clients for 2019. Clients are reported in 13 specific client category types, and in a catch-all "other" category. Advisers also reported providing investment advisory services to an additional 9.8 million clients, up from 7.3 million in 2019 and 3.4 million in 2018, for whom they do not have RAUM (*e.g.,* certain non-discretionary accounts, a one-time financial plan, providing a model, or other assets under advisement).[6] The approximate 3 million client increase in this category from 2019 may be attributable in part to digital advice platforms providing certain services (such as financial counseling) to more clients that do not have managed accounts with the adviser, or having clients with unfunded or inactive accounts. In aggregate, SEC-registered advisers have reported significant client growth over the past year by 5.8 million clients over the prior year.

WHY PINPOINTING THE EXACT NUMBER OF CLIENTS IS ELUSIVE

Form ADV data have limitations. Form ADV requires advisers to report the "approximate" number of clients in each of 13 categories – plus a catch-all "other" category – as well as the amount of total RAUM that is attributable to each type of client.

Advisers also have the option to report that they have fewer than five clients in a particular category (other than in the registered investment companies, business development companies, and pooled investment vehicles categories), rather than respond with a specific number. This option was included to address concerns regarding the potential disclosure of confidential or proprietary information. For purposes of this section, we only use Form ADV responses that provided a specific number of clients and therefore the number of ultimate clients included in the "fewer than 5 clients" response cannot be determined for purposes of this report. The number of clients is not exact since it is both under- and over-counted. The Form ADV data show that in 5,619 instances, advisers reported that they have fewer than five clients in one of the 13 categories.

A separate question in Form ADV (Item 5.C.1) asks "To approximately how many clients for whom you do not have regulatory assets under management did you provide investment advisory services during your most recently completed fiscal year?" In addition to being an approximate number, this question introduces another group of clients that are not identified by type.

In addition, the number of reported clients for certain advisers may include individuals eligible to receive investment advisory services on the basis of retirement plan participation.

While not exact, the recently amended Form ADV provides more precise data than under the prior version of Form ADV, which only required advisers to select a certain range of percentages. Previously, advisers were required to provide a specific number only if they had more than 100 clients, and advisers were permitted to round to the nearest 100.

[6] We have not included an additional 40 million clients reported by one firm in Item 5.C.1, as it appears to be a reporting error.

Chart 7: Number of Clients (millions)

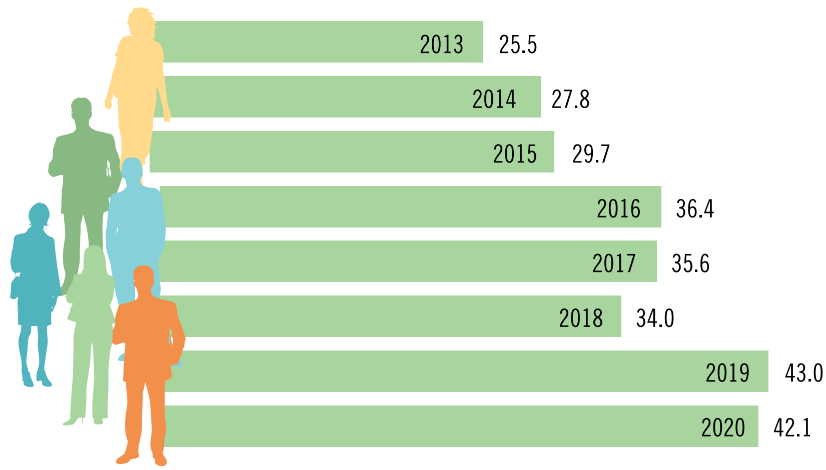
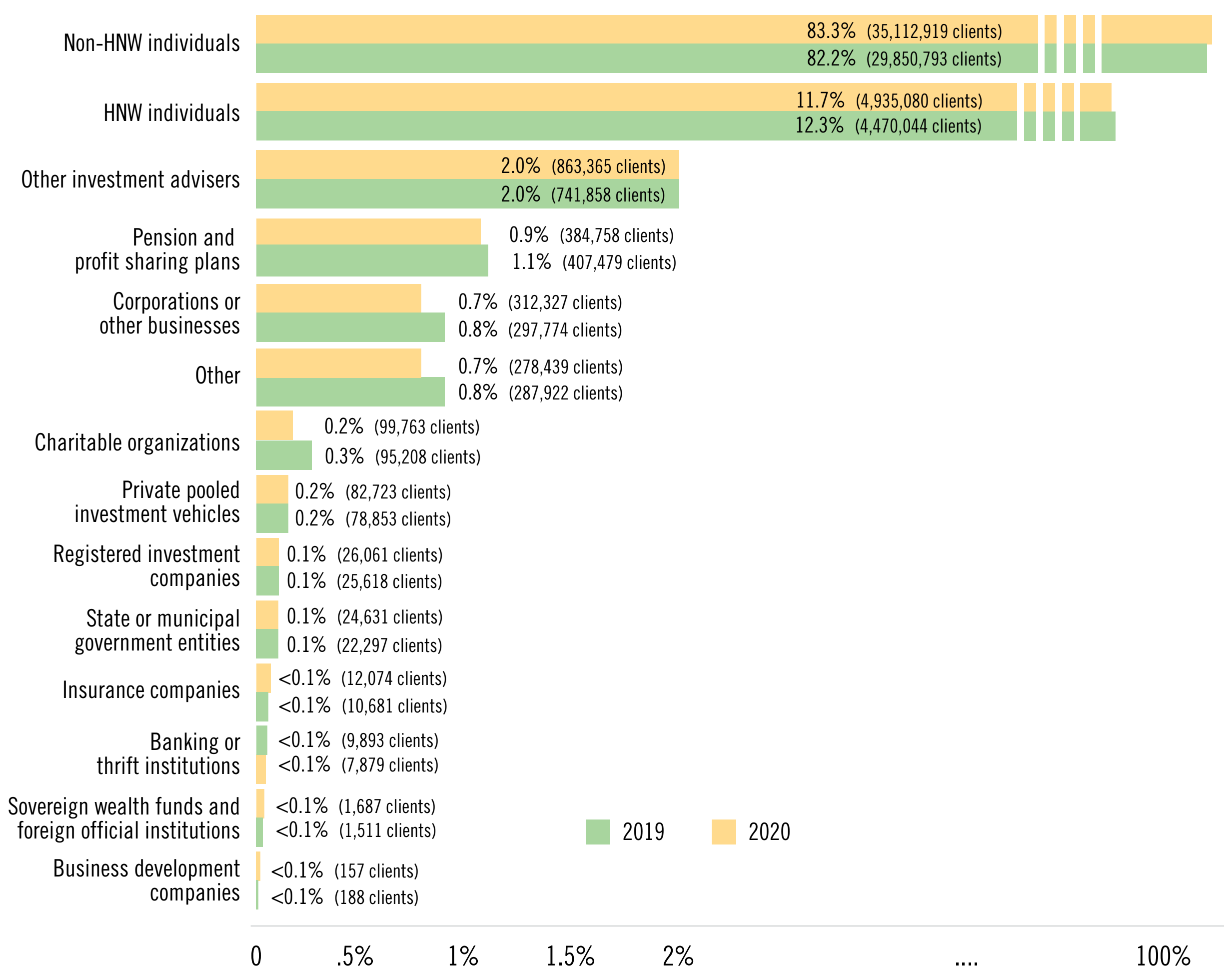
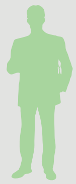


Chart 8: Number of Clients–Most Advisers Have Individual Clients



The 13 specific client types fall into three distinct categories: individuals, pools, and institutions. These categories, along with the estimated portion of the $97.2 trillion total RAUM reported for each type of client,[7] are:



Individuals	
• High net worth individuals[8]	$7.5 trillion – 7.7%
• Other individuals	$5.3 trillion – 5.5%

Pools	
• Registered investment companies	$33.3 trillion – 34.3%
• Pooled investment vehicles other than registered investment companies and BDCs (private funds)	$26.0 trillion – 26.7%
• Business development companies	$129 billion – 0.1%

Institutions	
• Pension and profit sharing plans	$6.4 trillion – 6.6%
• Insurance companies	$6.2 trillion – 6.4%
• State or municipal government entities	$3.5 trillion – 3.6%
• Corporations or other businesses	$2.7 trillion – 2.8%
• Sovereign wealth funds and foreign official institutions	$1.7 trillion – 1.7%
• Charitable organizations	$1.2 trillion – 1.2%
• Other investment advisers	$1.2 trillion – 1.2%
• Banking or thrift institutions	$988 billion – 1.0%

The following pages take a closer look at advisers to individuals, pools, and institutions.

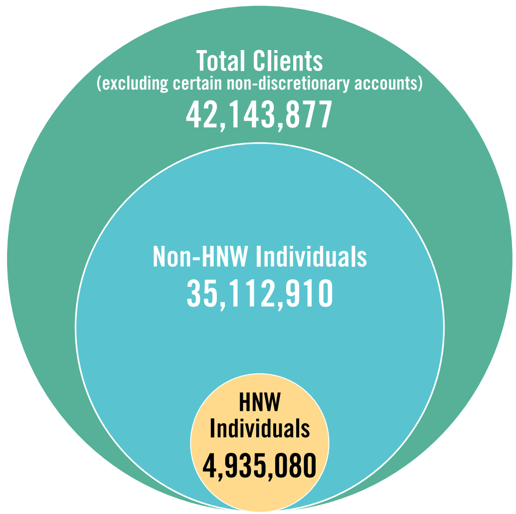
[7] These categories do not include $952 billion reported as an "other" type of client. Based on the narrative provided in the "other" category, it appears that some of the responses included as "other" could have been included in one of the specified category choices.

[8] A "high net worth individual" is an individual who is a "qualified client" as defined in Rule 205-3 under the Investment Advisers Act or who is a "qualified purchaser" as defined in Section 2(a)(51)(A) of the Investment Company Act. Generally, this means a natural person with at least $1,000,000 in assets under the management of an adviser, or whose net worth exceeds $2,100,000 (excluding the value of his or her primary residence).

A Closer Look at Advisers to Individual Clients

Individuals remain important to a great many investment advisers and continue to comprise the largest type of advisory clients.

Chart 9: Individuals Comprise the Largest Categories of Advisory Clients



Individual clients (40,047,999, or 95.0 percent) – in particular, non-HNW individuals (83.3 percent of total clients and 87.7 percent of individual clients) – comprise the bulk of clients by a wide margin. This dovetails with SEC Chairman Jay Clayton's priority of protecting the interests of retail – or "Main Street" – investors.[9] Two of the top five advisers as measured by number of non-HNW individual clients served are digital advice platforms, representing 7.5 million clients, 2.7 million more non-HNW individual clients than reported in 2019.[10] These clients tend to have lower – and in some cases zero – account balances. Other investment advisers is the next-most-prevalent type of client with 863,365 clients; however, 90.7 percent of the number of clients counted in this category is attributable to a single digital advice platform, which we understand represents the number of underlying clients that it serves in its capacity as sub-adviser to other investment advisers.

A Closer Look at Advisers to Pools

Advisers report having a total of 108,941 clients that are some type of pool, which represents 0.3 percent of all clients.

82,723 of these clients are private investment vehicles,[11] 26,061 are registered investment companies, and 157 are business development companies. The number of clients that are registered investment companies is up 1.7 percent, compared to last year's significant decline of 32.6 percent, and the number of clients that are private pooled investment vehicles is up by only 4.9 percent, compared to a substantial increase last year of 18.9 percent.

[9] *See Biography - The Commission Under Chairman Clayton,* available at https://www.sec.gov/biography/jay-clayton.

[10] The number of "Internet advisers" reporting that they provide advice exclusively through an interactive website increased by 9.3 percent – less than the 12.4 percent in 2019 – to 188.

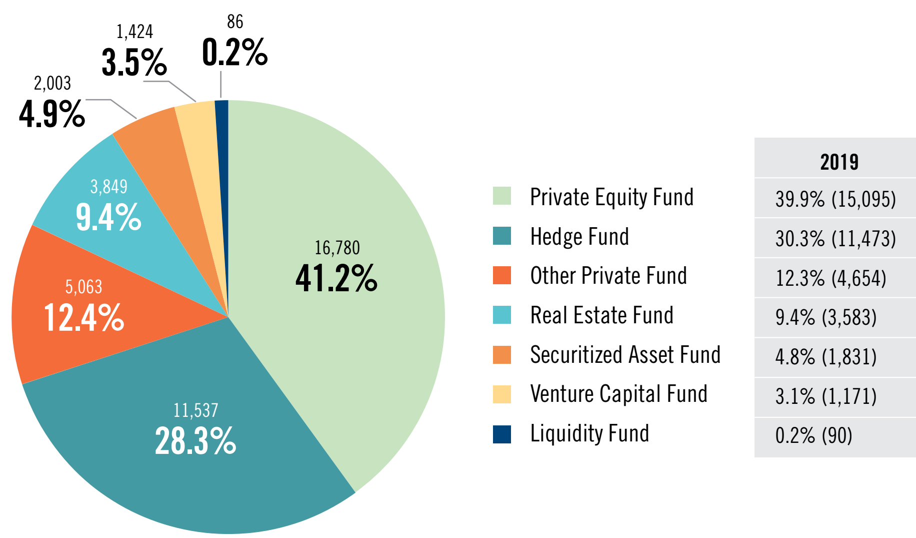
[11] The term "private pooled investment vehicle" refers to all pooled investment vehicles other than registered investment companies and business development companies. The term "private fund" refers only to those private pooled investment vehicles that are organized under Section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940.

Form ADV provides detailed data on advisers to private funds. In 2020, 4,840 advisers (35.9 percent) reported advising 40,742 private funds,[12] 24.0 percent of which are funds of funds. The raw numbers of private funds and advisers to private funds increased slightly from 2019; in 2019 there were 4,520 advisers advising 37,873 private funds, 24.3 percent of which were funds of funds.[13]

Hedge funds and private equity funds continue to represent the largest portions of the private funds group, comprising 69.5 percent of all reported private funds, with private equity funds making up 41.2 percent and hedge funds representing 28.3 percent of reported private funds. The percentage of hedge funds and private equity funds continues to diverge, with private equity funds making even more gains -- advisers reported 1,685 additional private equity funds in the past year and private equity funds increased by 1.3 percent of all reported private funds. While the number of reported hedge funds showed a slight increase from the past year by 64, the percentage of hedge funds relative to all reported private funds decreased by 2.0 percent from last year.

The total gross asset value of reported private funds is approximately $19.1 trillion (a 28.1 percent increase from the $14.9 trillion reported in 2019), which is 19.7 percent of all reported RAUM with an average gross asset value per fund of $469 million. The median gross asset value, on the other hand, is $57.2 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 beneficial owners and a very small number of funds reporting a large number of beneficial owners. The median number of beneficial owners is 13, while the average number is 50.

Chart 10: Types of Private Funds: Private Equity Funds Increase Gains While Hedge Fund Growth Decreases from 2019



[12] Advisers to private funds are only required to report detailed data on certain private funds. If the adviser is a sub-adviser, the instructions to Form ADV specify that the adviser should not provide detailed data if another SEC-registered adviser or SEC exempt reporting adviser reports detailed information for the same private fund. Therefore, this number reflects the number of private funds reported on Schedule D, Section 7.B.1, rather than the number of pooled investment vehicle clients, including private funds, reported in Item 5.D.1(f).

[13] 735 advisers reported advising at least one private fund that is reported by another adviser (*e.g.*, sub-advisory relationships).

A Closer Look at Advisers to Institutional Clients

The most common type of institutional client is other investment advisers – over 863,000 – far more than any other single type of institutional client. The next most common type of institutional client is pension plans clients, with advisers serving over 384,000 pension clients and profit sharing plans this year, down from over 400,000 in 2019. Other institutional clients include corporations, banks, insurance companies, charities, governmental entities, and sovereign wealth funds.

UNWRAPPING WRAP FEE PROGRAMS

An investment adviser that participates in wrap fee programs must report the amount of RAUM attributable to acting as: (i) a sponsor to a wrap fee program; (ii) a portfolio manager for a wrap fee program; or (iii) both sponsor to, and portfolio manager for, the same wrap fee program.

A wrap fee program is an arrangement under which a client receives a combination of services – including investment advisory, brokerage, clearing, custodial and/or administrative services – in a bundled form, for a specified all-inclusive – or "wrap" – fee, usually based on a percentage of assets under management in the wrap fee account.

An investment adviser may be a sponsor of a wrap fee program or it may enter into arrangements with a sponsor (broker-dealer, bank, or insurance company), whereby the sponsor offers a client a choice of an adviser as a portfolio manager of the wrap fee account.

"Participating" in a wrap fee program refers to serving as the sponsor and/or a portfolio manager, as distinguished from merely placing (or recommending the placement of) client funds in one or more programs sponsored by unaffiliated third parties.

Chart 11: Wrap Fee Programs

2,002 (14.8%) advisers **participate in a** wrap fee program

$2.9 trillion RAUM **is attributable to acting as a sponsor** to a wrap fee program

$1.8 trillion RAUM **is attributable to acting as portfolio manager** for a wrap fee program

$4.2 trillion RAUM **is attributable to acting as both sponsor to and portfolio manager** for the same wrap fee program[14]

[14] Dozens of advisers triple reported the same RAUM in each of the (i) sponsor, (ii) portfolio manager, and (iii) sponsor and portfolio manager categories, contrary to Form ADV's instructions.

A Closer Look at Separately Managed Accounts

Separately managed account (SMA) client RAUM includes all of the adviser's RAUM except for RAUM attributable to three client-type categories: registered investment companies; business development companies; and private pooled investment vehicles. If, after excluding those three types of clients, the remaining amount is at least $10 billion in RAUM, advisers must report both mid-year and end-of-year values of the SMA RAUM, showing the percentage of RAUM attributable to each category of assets. If the remaining amount is less than $10 billion in RAUM, advisers only report end-of-year values. For purposes of this report, we focus on end-of-year values.

SEPARATING SEPARATELY MANAGED ACCOUNTS

One of the most highly-anticipated areas of amended Form ADV was that advisers are now required to report additional data about SMAs. The enhanced data collected include information on the types of assets owned by SMA clients. In addition, certain advisers are required to provide information on borrowings and the use of derivatives, including gross notional exposure of derivatives in the aggregate held in client SMAs.

Because the term "separately managed account" as used in Form ADV is broader than common usage of that term, it is possible that some amounts relating to clients are under-reported.

9,878 (compared to 9,484 in 2019) advisers (73.2, compared to 73.0 percent in 2019) have RAUM attributable to SMA clients:

- 556 (compared to 565 in 2019) advisers reported having at least $10 billion in such RAUM. This is down slightly by 9 (1.6 percent) from 2019.
- 9,322 (compared to 8,919 in 2019) advisers reported having less than $10 billion in such RAUM. This is up by 403 (4.5 percent) from 2019.

The approximate percentage of SMA RAUM that is attributable to each of 11 categories of assets – plus a catch-all "other" category – is as follows:

Chart 12: SMA Portfolios Include Diverse Asset Types

Asset Type	Larger Advisers End-of-Year (at least $10 billion in SMA RAUM)		Smaller Advisers End-of-Year (less than $10 billion in SMA RAUM)	
	% of SMA RAUM	# of Advisers	% of SMA RAUM	# of Advisers
(i) Exchange-Traded Equity Securities	0%	119	0%	1,211
	1% < 25%	155	1% < 25%	2,902
	26% < 50%	109	26% < 50%	1,722
	51% < 75%	60	51% < 75%	1,648
	76% < 99%	96	76% < 99%	1,647
	100%	17	100%	192
(ii) Non Exchange-Traded Equity Securities	0%	467	0%	8,068
	1% < 25%	82	1% < 25%	985
	26% < 50%	5	26% < 50%	126
	51% < 75%	2	51% < 75%	62
	76% < 99%	0	76% < 99%	38
	100%	0	100%	43
(iii) U.S. Government/Agency Bonds	0%	273	0%	5,884
	1% < 25%	253	1% < 25%	3,186
	26% < 50%	24	26% < 50%	143
	51% < 75%	5	51% < 75%	61
	76% < 99%	1	76% < 99%	38
	100%	0	100%	10
(iv) U.S. State and Local Bonds	0%	328	0%	5,233
	1% < 25%	211	1% < 25%	3,894
	26% < 50%	8	26% < 50%	124
	51% < 75%	3	51% < 75%	29
	76% < 99%	6	76% < 99%	35
	100%	0	100%	7
(v) Sovereign Bonds	0%	389	0%	8,959
	1% < 25%	143	1% < 25%	332
	26% < 50%	17	26% < 50%	18
	51% < 75%	7	51% < 75%	7
	76% < 99%	0	76% < 99%	6
	100%	0	100%	0
(vi) Investment Grade Corporate Bonds	0%	218	0%	5,296
	1% < 25%	242	1% < 25%	3,783
	26% < 50%	70	26% < 50%	189
	51% < 75%	23	51% < 75%	40
	76% < 99%	3	76% < 99%	11
	100%	0	100%	3

Asset Type	Larger Advisers End-of-Year (at least $10 billion in SMA RAUM)		Smaller Advisers End-of-Year (less than $10 billion in SMA RAUM)	
	% of SMA RAUM	# of Advisers	% of SMA RAUM	# of Advisers
(vii) Non-Investment Grade Corporate Bonds	0%	370	0%	8,215
	1% < 25%	174	1% < 25%	1,003
	26% < 50%	6	26% < 50%	56
	51% < 75%	5	51% < 75%	23
	76% < 99%	1	76% < 99%	20
	100%	0	100%	5
(viii) Derivatives	0%	461	0%	8,676
	1% < 25%	87	1% < 25%	587
	26% < 50%	3	26% < 50%	15
	51% < 75%	1	51% < 75%	14
	76% < 99%	1	76% < 99%	14
	100%	3	100%	16
(ix) Securities Issued by Registered Investment Companies or Business Development Companies	0%	305	0%	3,545
	1% < 25%	135	1% < 25%	1,721
	26% < 50%	33	26% < 50%	1,219
	51% < 75%	48	51% < 75%	1,249
	76% < 99%	28	76% < 99%	1,460
	100%	7	100%	128
(x) Securities Issued by Pooled Investment Vehicles (other than Registered Investment Companies or Business Development Companies)	0%	370	0%	7,608
	1% < 25%	138	1% < 25%	1,223
	26% < 50%	23	26% < 50%	201
	51% < 75%	14	51% < 75%	106
	76% < 99%	8	76% < 99%	106
	100%	3	100%	78
(xi) Cash and Cash Equivalents	0%	96	0%	1,208
	1% < 25%	444	1% < 25%	7,739
	26% < 50%	11	26% < 50%	256
	51% < 75%	3	51% < 75%	59
	76% < 99%	0	76% < 99%	38
	100%	2	100%	22
(xii) Other	0%	303	0%	7,044
	1% < 25%	192	1% < 25%	1,735
	26% < 50%	25	26% < 50%	150
	51% < 75%	14	51% < 75%	80
	76% < 99%	7	76% < 99%	118
	100%	15	100%	195

Larger Firms. The most prevalent asset types for those advisers managing at least-$10 billion in SMA RAUM include cash and cash equivalents, exchange-traded equity securities, bonds, and registered investment companies. It is rare for 100 percent of larger advisers' SMA RAUM to be attributable to a single asset type. Of the 47 larger firms that invest all their SMA RAUM in a single asset type, 17 firms invest only in exchange-traded equity securities, 7 firms in registered investment companies, and 15 firms in "other."

Smaller Firms. The most prevalent asset types for the under-$10 billion group include cash and cash equivalents, exchange-traded equity securities, registered investment companies, bonds, and private investment vehicles. Some advisers attribute 100 percent of their RAUM to a single asset type, most commonly exchange-traded equity securities (192 firms), registered investment companies (128 firms), private investment vehicles (78 firms), non exchange-traded equity securities (43 firms), and derivatives (16 firms). 699 smaller advisers invest 100 percent of their clients' SMA RAUM in one of 11 asset types (or "other").

The most common "other" asset types reported by both larger and smaller firms include asset-backed and mortgage-backed securities, variable annuities, securitized assets and securitized debt instruments, structured products, repurchase agreements, real estate, syndicated bank loans, and alternative investments. It is likely that some assets included as "other" could have been included in one of the specified answer choices.

Use of Borrowings and Derivatives in Separately Managed Accounts

Items in Form ADV ask about an adviser's use of borrowings and derivative transactions in clients' SMAs. If an adviser answers that it engages in borrowings and/or derivative transactions on behalf of its SMA clients, then it generally must provide additional details relating to borrowings and derivatives (summarized in Charts 13 and 14), unless it has less than $500 million in SMA RAUM. Different additional details are required to be reported for advisers with:

- At least $500 million but less than $10 billion in SMA RAUM
- $10 billion or more in SMA RAUM

The following pages take a closer look at the additional details that advisers reported on their use of borrowings and derivatives on behalf of their SMA clients.

How Many Advisers Engage in Borrowings or Derivative Transactions on Behalf of SMA Clients?

1,659 advisers (12.3 percent of all advisers; 16.8 percent of advisers with SMA RAUM) engage in borrowing transactions on behalf of any of the SMA clients that they advise. The number of advisers is up by 65, or 4.1 percent, from 2019, but the percentage of all advisers is the same as 2019.

1,793 advisers (13.3 percent of all advisers, down slightly from 2019's 13.5 percent; 18.2 percent of advisers with SMA RAUM) engage in derivative transactions on behalf of any of the SMA clients that they advise. The number of advisers is up by 37, or 2.1 percent from 2019.

2,488 (18.4 percent) of all advisers engage in either or both borrowings and derivative transactions on behalf of their SMA clients. This is up by 71 (2.9 percent) from 2019. However, only 897 (36.1 percent) of those advisers provided additional details relating to borrowings and/or derivatives. 1,591 (63.9 percent) of the 2,488 advisers that engage in borrowings and/or derivatives did not provide gross notional exposure (GNE) details either because they have less than $500 million in SMA RAUM (and do not report additional details), or because they met the $500 million threshold but each SMA they advised was less than $10 million, and advisers are permitted, but not required, to report additional details on those SMAs.

A Deeper Dive into Use of Borrowings and Derivatives in SMAs

652 advisers that reported having SMA RAUM of at least $500 million but less than $10 billion, and 303 advisers that have SMA RAUM of at least $10 billion, provided additional details on borrowings and/or derivatives.[15] The smaller group is down from 654 (0.3 percent) while the larger group is up from 291 (4.1 percent), respectively, in 2019.

Advisers with at least $500 million but less than $10 billion in SMA RAUM must annually report the amount of aggregate SMA RAUM and the dollar amount of borrowings attributable to those assets that correspond to three levels of GNE as of the end of the year. (See box on page 28, *Understanding Gross Notional Exposure*.)

What are Borrowings?

For purposes of the SMA questions added in Form ADV Part 1A in 2017, **borrowings are defined by the SEC in the Glossary of Form ADV Part 1A** as including secured borrowings and unsecured borrowings, collectively.

- Secured borrowings are obligations for borrowed money in respect of which the borrower has posted collateral or other credit support. The Glossary states that secured borrowings should include reverse repos.
- Unsecured borrowings are obligations for borrowed money in respect of which the borrower has not posted collateral or other credit support.

In addition, the SEC staff issued FAQs stating that borrowings should include traditional lending activities such as client bank loans and margin accounts, other secured and unsecured borrowings, synthetic borrowings and transactions involving synthetic borrowings (*e.g.,* certain total return swaps), short sale transactions, and certain transactions involving unpaid variation margin. Advisers should not report as borrowings leverage that is embedded through the use of derivatives, securities lending, or repurchase agreements.

The SEC's broad definition of borrowings and measurement methodology make it difficult to draw conclusions about the prevalence of leverage or risk in SMAs managed by advisers.

What are Derivative Transactions?

"Derivative transactions" are not defined in Form ADV, but the Glossary defines the following terms: Interest rate derivative; Foreign exchange derivative; Credit derivative; Equity derivative; and Commodity derivative.

[15] The instructions to Schedule D, Section 5.K.(2) of Form ADV provide that advisers with $10 billion or more in SMA RAUM are to complete Question (a), and that advisers with at least $500 million but less than $10 billion in SMA RAUM are to complete Question (b). However, some advisers completed both questions, contrary to the instructions.

Chart 13: Number of Responses Reporting Borrowings or Derivatives on Behalf of SMA Clients Among Advisers with $500 Million up to $10 Billion in SMA RAUM** (Section 5.K.(2)(b) of Schedule D)

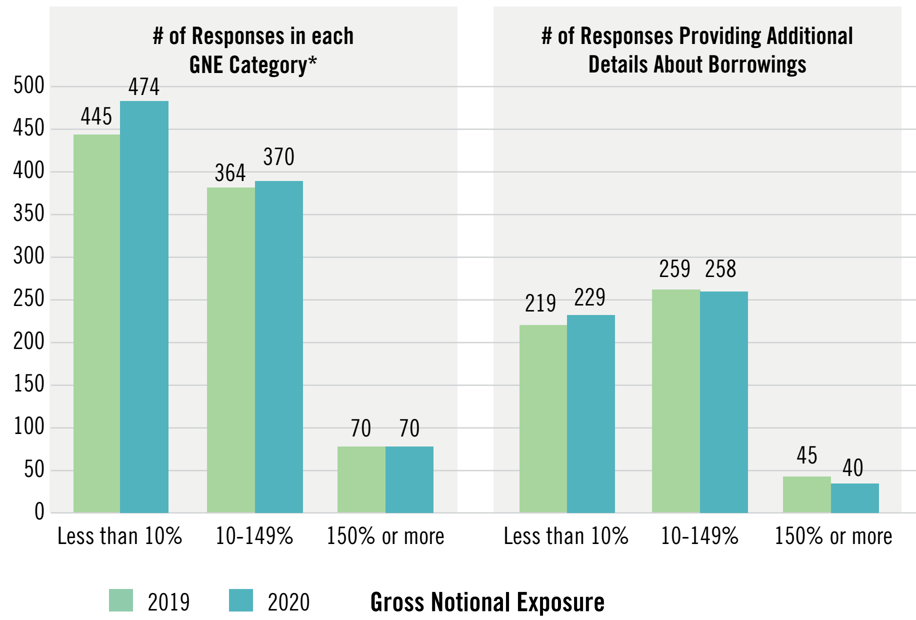


Chart 14: Number of Responses Reporting Derivative Exposures and Borrowings on Behalf of SMA Clients Among Advisers with $10 Billion or more in SMA RAUM** (Section 5.K.(2)(a) of Schedule D)

Gross Notional Exposure	# of Responses	# of Responses Providing Additional Details About Borrowings	# of Responses in each GNE category*					
			Interest Rate Derivative	Foreign Exchange Derivative	Credit Derivative	Equity Derivative	Commodity Derivative	Other Derivative
Less than 10%	256	104	61	79	25	85	4	18
10-149%	227	111	112	139	51	113	17	42
150% or more	106	50	76	76	40	57	17	26

* GNE is calculated by each client SMA. Because a single adviser may have reported more than one category of GNE, the responses do not reflect the number of advisers that engage in borrowings or derivative transactions.

** Advisers may exclude, but may also opt to include, any individual SMA with RAUM of less than $10 million in these detailed reporting Sections in Schedule D.

Understanding Gross Notional Exposure

Form ADV looks at borrowings and derivatives in terms of the gross notional exposure (GNE) of each SMA. GNE is the percentage obtained by dividing the sum of the dollar amount of any borrowings and the gross notional value of all derivatives by the RAUM of the account.

The SEC requires that the account GNE be calculated, aggregated, and reported at three levels:

- Less than 10%
- 10-149%
- 150% or more

Note: GNE is not a measure of a firm's risk and does not reflect the ways in which derivatives are used in an SMA, such as leverage, hedging positions, or offsetting long and short positions. As a result, it is not clear whether these data are meaningful without further context.

Investment Adviser Compensation

Adviser compensation arrangements remain steady year over year, with virtually all of the compensation categories showing little change. Asset-based fees continue to dominate in the investment advisory profession, with 95.4 percent of advisers indicating this year that they are compensated based on a percentage of their assets under management. It is likely that some fees included as "other" could have been included in one of the specified answer choices. Of the 1,924 (14.3 percent) advisers that report receiving "other" types of compensation arrangements, some of the more common types cited are a percentage of assets under advisement (*e.g.,* non-managed assets), various fees associated with private funds, 12b-1 fees, referral fees, percentage of client net worth, percentage of plan assets, retainers, selection of other advisers fees, seminar fees, and wrap fees.

Chart 15: Asset-Based Fees Dominate Adviser Compensation Arrangements

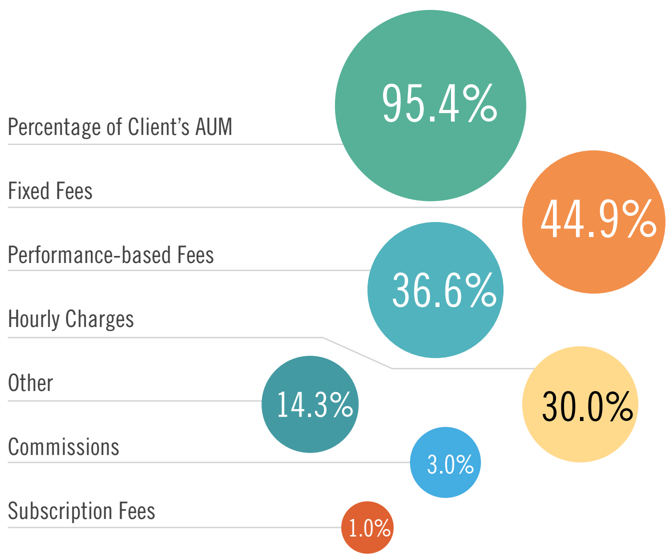


Chart 16: Investment Adviser Compensation (Past Three Years)

Category of IA Compensation	2018		2019		2020	
	# of Advisers	% of Advisers	# of Advisers	% of Advisers	# of Advisers	% of Advisers
Percentage of Client's AUM	11,986	95.3%	12,403	95.5%	12,873	95.4%
Hourly Charges	3,647	29.0%	3,840	29.6%	4,053	30.0%
Subscription Fees	118	0.9%	118	0.9%	133	1.0%
Fixed Fees	5,445	43.3%	5,723	44.0%	6,053	44.9%
Commissions	459	3.6%	420	3.2%	408	3.0%
Performance-based Fees	4,704	37.4%	4,823	37.1%	4,943	36.6%
Other	1,830	14.5%	1,856	14.3%	1,924	14.3%

The number of firms charging commissions is 3.0 percent of all advisers, a continued decrease, dropping 2.9 percent to a total of 408 of all advisers in 2020, down from 3.6 percent two years ago. This trend continues despite the 2018 vacatur of the Department of Labor's 2016 Fiduciary Rule, and reflects the industry's continuing shift from the broker-dealer model to the fiduciary advisory model. The number of advisers charging fixed fees increased by 5.8 percent and those reporting subscription fees increased by 12.7 percent, likely for reasons such as generational turnover as younger investors may prefer an alternative model when paying for financial advice.

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[16]– appear to continue to be a source of widespread confusion and inconsistent interpretations in the asset management industry. Indeed, a 2017 *Risk Alert* published by the SEC's Office of Compliance Inspections and Examinations (OCIE) emphasized that non-compliance with the Custody Rule was one of the five most frequent compliance topics identified in investment adviser examinations and that, in fact, many advisers failed to realize they even had custody as defined in the rule.[17] These issues persist today, and OCIE continues to prioritize compliance with the custody rule in adviser examinations.

The confusion surrounding the custody rule stems from the fact that while advisers, in general, are prohibited from having physical custody of client assets, advisers are also deemed to have custody under certain other circumstances. Many of the questions in Form ADV relate to advisers that are deemed to have 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[18] on Form ADV and are therefore not reflected in the data we discuss below, unless otherwise indicated.

During the past few years, confusion also continues from the SEC staff's Inadvertent Custody Guidance Update,[19] which (i) indicates that an adviser may have "inadvertent custody" if the client's custody agreement contains broad authority for the adviser to instruct the custodian, even where the adviser is not a party to the custody agreement and that authority is inconsistent with the adviser's agreement with the client, and (ii) calls into question the industry's understanding of the authorized trading exception to the Custody Rule, which has significant implications for instruments that are not processed or do not settle on a "delivery versus payment" basis (non-DVP). In March 2019, the SEC staff launched an initiative to gather information on custody issues involving non-DVP trading and custody of digital assets.[20] The SEC staff continues to conduct industry outreach on other potential changes to the Custody Rule that the staff may consider in crafting a policy recommendation to the Commission to amend the Custody Rule (see below, "Changes to the Custody Rule Are a Step Closer").

In addition to the rule's complexity, the questions in Item 9 of Form ADV, Part 1 on custody are confusing in their use of the terms "you" and "your related persons," leading us to conclude that some advisers are double counting, and other questions embed double negatives. There also continues to be confusion about the difference between having "custody" and being a "custodian," resulting in frequent misinterpretations.

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[16] Rule 206(4)-2 under the Advisers Act, most recently amended in 2009, requires an adviser with custody of client assets (with some exceptions) to: (i) maintain the assets with a "qualified custodian" (generally a bank or broker-dealer); (ii) if the adviser opens the custodial account on behalf of the client, provide certain information to the client; (iii) have a reasonable belief, after due inquiry, that the qualified custodian sends account statements directly to clients; and (iv) undergo an annual surprise exam by an independent public accountant to verify client assets.

[17] *See* https://www.sec.gov/ocie/Article/risk-alert-5-most-frequent-ia-compliance-topics.pdf.

[18] According to a March 5, 2014 Form ADV, Item 9 Completion Reminder, advisers that have custody solely because they deduct fees from client accounts would respond "no" in Item 9.A, likely would respond "no" in Items 9.B. and 9.D., and likely would not need to provide information in Items 9.C. or 9.E. However, in Item 9.F., these advisers likely would need to indicate that there is at least one person acting as qualified custodian for their clients in connection with advisory services they provide to clients.

[19] *See* SEC Division of Investment Management Guidance Update, *Inadvertent Custody: Advisory Contract Versus Custodial Contract Authority* (No. 2017-01), available at https://www.sec.gov/investment/im-guidance-2017-01.pdf. *See also* SEC Division of IM staff FAQs on custody, available at https://www.sec.gov/divisions/investment/custody_faq_030510.htm.

[20] "The staff believes that questions surrounding Non-DVP trading, as well as additional questions and issues the staff has identified regarding the Custody Rule over the past 15 years, should be considered by the Commission." The letter also seeks industry input on investing in digital assets. See Letter from the SEC Division of Investment Management to the Investment Adviser Association, *Engaging on Non-DVP Custodial Practices and Digital Assets* (Mar. 12, 2019), available at https://www.sec.gov/investment/non-dvp-and-custody-digital-assets-031219-206.

Given this backdrop, Chart 17 shows that the number of advisers reporting that they or a related person had or were deemed to have custody increased by 381 (5.3 percent) to 7,543 in 2020 compared to 7,162 in 2019. In 2020 there were modest increases in the number of advisers that reported having custody of any clients' cash or bank accounts (up 6.0 percent), securities (up 4.5 percent), total advisers and their related persons having custody of clients' cash or bank accounts (up 5.3 percent), and total RAUM representing clients' cash or bank accounts (up 10.8 percent, from $14.1 trillion last year to $15.6 trillion in 2020). The number of advisers that act as qualified custodians and that have related persons that act as qualified custodians increased by five.

Chart 17: Custody of Client Assets Steadily Increasing

Category	2018		2019		2020	
	# of Advisers	% of Advisers	# of Advisers	% of Advisers	# of Advisers	% of Advisers
Adviser has custody of client cash/bank accounts	5,236	41.6%	5,722	44.0%	6,063	44.9%
Adviser has custody of client securities	5,043	40.1%	5,390	41.5%	5,634	41.8%
Related person(s) has custody of client cash/bank accounts	3,828	30.4%	3,913	30.1%	4,036	29.9%
Related person(s) has custody of client securities	3,781	30.1%	3,860	29.7%	3,987	29.5%
Adviser and/or related person(s) has custody of advisory client assets (answered yes to any of the above)	6,635	52.8%	7,162	55.1%	7,543	55.1%

Changes to the Custody Rule Are a Step Closer

It is evident from the data reported that substantial confusion with the Custody Rule remains. The regulatory framework under the Advisers Act Custody Rule is overly complex, unduly burdensome, and has caused unnecessary confusion for advisers. The SEC continues to include amendments to the Custody Rule for investment advisers on its June 2020 Regulatory Flexibility Agenda, with an expected proposal date of April 2021:

> *The Division [of Investment Management] is considering recommending that the Commission propose amendments to existing rules and/or propose new rules under the Investment Advisers Act of 1940 to improve and modernize the regulations around the custody of funds or investments of clients by Investment Advisers.*

Custodians for Separately Managed Accounts

More than half (8,244 or 61.1 percent) of advisers report that a particular custodian holds 10 percent or more of the adviser's SMA RAUM, which is up by 7.2 percent from 2019. 227 advisers report that a custodian that holds 10 percent or more of the adviser's SMA RAUM is a related person, up from 223 (4 advisers or 1.8 percent). 550 advisers report a non-U.S.-based custodian as holding 10 percent or more of the adviser's SMA RAUM (up from 536 or 2.6 percent from 2019), representing $2.4 trillion (2.4 percent) of industry-wide RAUM (up from $2.0 trillion).

With respect to the type of custodian, two-thirds (9,211 or 66.5 percent) of the responses identified custodians that are broker-dealers, which is up 8.8 percent from last year.

In the aggregate, $25.9 trillion of RAUM is held by custodians that each hold 10 percent or more of advisers' SMA RAUM (up from $22 trillion in 2019), $4.9 trillion of which (19.0 percent) is held by four large broker-dealer custodians.

Forty-seven percent of investment advisers (6,323) reported having custody of client cash, bank accounts, and/or securities, a slight increase over 2019 (5,974 or 46.0 percent).[21] However, only 82 advisers – about 0.6 percent 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 is also either a broker-dealer or bank and acts as a custodian in one of those other capacities. The longer-term data show that this already uncommon practice is becoming increasingly rare. The universe of 82 firms reflects the same percentage as in 2019 and is down from 120 firms that reported acting in such a capacity in 2011.

The number of advisers reporting that a related person acts as a qualified custodian decreased from 2019 by 11 to 356 advisers in 2020. Of these, 323 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.

The number of advisers reporting that an independent public accountant conducts an annual surprise examination of client funds and securities increased by 56 or 3.2 percent to 1,805 advisers, which is slightly less than the 5.8 percent increase in the number of advisers that have custody of client funds and securities.

It is worth noting that private fund advisers report a high incidence of custody of client assets because the SEC interprets "custody" as acting in a capacity that gives the adviser legal ownership of or access to client funds or securities (*e.g.,* 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). In fact, of advisers that identified themselves as advisers to private funds, 88.8 percent also reported that they or a related person have custody of client assets.

[21] As shown in the first two rows of Chart 17, advisers separately report whether they have custody of (i) client cash or bank accounts and (ii) client securities. There is substantial overlap in these data, as nearly all advisers that report having custody of client cash or bank accounts also report having custody of securities.

Employees of Investment Advisory Firms

In 2020, SEC-registered advisers reported a total of 871,971 non-clerical employees, a 4.4 percent increase in employment from 2019, which is greater than 2019's 3.7 percent increase over 2018. It is an increase of 16.1 percent or 121,176 non-clerical employees, since our 2015 report. Of these employees, 451,536 (or 51.8 percent) provide investment advisory services (including research) – an increase of 15,280 or 3.5 percent over 2019.[22]

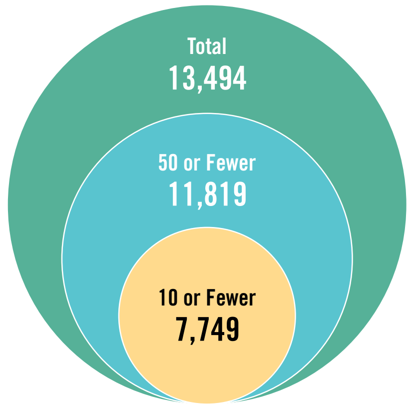
Chart 18: Investment Adviser Non-Clerical Employees

Number of Employees	2019		2020		% Change in # of Advisers
	# of Advisers	Aggregate # of Employees	# of Advisers	Aggregate # of Employees	
1 to 5	4,407	13,999	4,658	14,690	5.7%
6 to 10	2,980	23,003	3,091	23,674	3.7%
11 to 50	3,980	85,932	4,070	87,795	2.3%
51 to 250	1,214	127,818	1,242	129,350	2.3%
251 to 500	200	70,331	217	75,423	8.5%
501 to 1,000	96	68,800	100	72,599	4.2%
More than 1,000	116	445,241	116	468,440	0.0%
Total	12,993	835,124	13,494	871,971	3.9%
Average	—	64	—	65	—
Median	—	9	—	8	—

The data confirm that the vast majority of SEC-registered investment advisers are small businesses. In fact, 57.4 percent (7,749) reported that they employ 10 or fewer non-clerical employees, and 87.6 percent (11,819) reported that they employ 50 or fewer non-clerical employees. These segments increased by 362 and 452 advisers, respectively. Both of these percentages are very similar to those reported in 2019 (56.9 percent and 87.5 percent). The number of advisers reporting that they have no non-clerical employees decreased slightly, from 84 to 82.

[22] The data have some limitations, particularly in the smallest cohort, which includes 84 advisers that reported zero employees. In addition, some job growth may be attributable to firms that were previously state-registered.

Chart 19: The Vast Majority of Advisers are Small Businesses with 50 or Fewer Non-Clerical Employees



Investment advisers collectively reported employing 451,536 individuals who perform investment advisory functions, up by 3.5 percent from 2019, and 394,430 employees who are also registered representatives of a broker-dealer, down by 1.1 percent. In addition, the percentage of advisers that reported no registered representatives, 72.7 percent or 9,806, increased slightly from 72.0 percent or 9,360 in 2019.

Chart 20: Activities by Investment Adviser Employees

Number of Employees	# of advisers with employees who:				
	Perform investment advisory functions	Are registered representatives of a broker-dealer	Are registered with 1 or more states as investment adviser representatives	Are registered with 1 or more states as investment adviser representatives for another adviser	Are licensed agents of an insurance company
0	174	9,806	5,772	12,189	9,897
1 to 5	6,851	1,988	4,968	1,011	2,519
6 to 10	2,797	558	1,370	149	434
11 to 50	2,812	709	1,010	96	386
51 to 250	658	279	246	41	158
251 to 500	103	49	52	2	26
501 to 1,000	48	41	23	3	30
More than 1,000	51	64	53	3	44
Total/% change from 2019	451,536 / 3.5%	394,430 / (1.2)%	322,771 / 3.3%	20,137 / (1.7)%	252,744 / 0.06%
Average	33	29	24	1	19
Median	5	0	1	0	0

Although 174 advisers report that they have no employees who perform investment advisory functions, it is likely that persons that perform these functions are shared with, and technically employed by, an affiliate of the adviser.

Other Characteristics of Investment Advisory Firms

Other Business Activities

Although participation in most categories of other business activities decreased or stayed flat over the past year, advisers selling products or providing services other than investment advice to advisory clients increased by 5.3 percent to 2,363 advisers.

In 2020, as in previous years, a small number of the other business activity categories account for the vast majority of all reported other business activities of investment advisers. The two most common activities – commodity pool operator (CPO)/commodity trading advisor (CTA) and insurance broker/agent – collectively represent 67.8 percent of all activities reported, while broker-dealer and registered representative of a broker-dealer together account for 18.6 percent of all other business activities reported. Participation as a CPO/CTA increased by 1.3 percent with 2,081 advisers listing CPO/CTA as an outside business activity, outpacing insurance broker/agent, which was reported by 1,127 participants, a 5.9 percent increase from last year. The number of firms reporting active engagement as registered municipal advisors dropped 5.5 percent this year, following an 11.3 percent decrease in 2019.

The number of dual registrants (entities that are both SEC-registered investment advisers and SEC-registered broker-dealers) continued to decline this year, falling by 1.3 percent to 439, or 3.3 percent of all registered advisers, while the number of advisers actively engaged in business as a registered representative of a broker-dealer (*e.g.,* sole proprietors) increased slightly by 1.8 percent to 441 following a 4.8 percent decrease last year. For more on dual registrants, see "Financial Industry Affiliations" below.

Financial Industry Affiliations

Form ADV requires investment advisers to disclose information regarding their affiliations and activities with other persons within the financial industry. Affiliations increased by 1.5 percent to 21,111, following last year's 0.2 percent increase.

Chart 21: Financial Industry Affiliations

Related person is:	Number of Advisers	Percentage of Advisers
Sponsor, general partner, managing member (or equivalent) of pooled investment vehicles	4,870	36.1%
Other investment adviser (including financial planners)	4,274	31.7%
Broker-dealer, municipal securities dealer, or government securities broker or dealer	2,379	17.6%
Commodity pool operator/trading advisor (whether registered or exempt)	2,291	17.0%
Insurance company or agency	2,152	15.9%
Accountant or accounting firm	953	7.1%
Banking or thrift institution	761	5.6%
Trust company	725	5.4%
Sponsor or syndicator of limited partnerships (or equivalent), excluding pooled investment vehicles	633	4.7%
Pension consultant	582	4.3%
Real estate broker or dealer	516	3.8%
Lawyer or law firm	443	3.3%
Registered municipal advisor	276	2.0%
Futures commission merchant	176	1.3%
Registered security-based swap dealer	70	1.0%
Major security-based swap participant	10	0.1%

The most common affiliation reported in 2020 among investment advisers is with sponsors, general partners, or managing members (or equivalent) of pooled investment vehicles, with 4,870 (36.1 percent) reporting such an affiliation, up 3.3 percent since 2019.

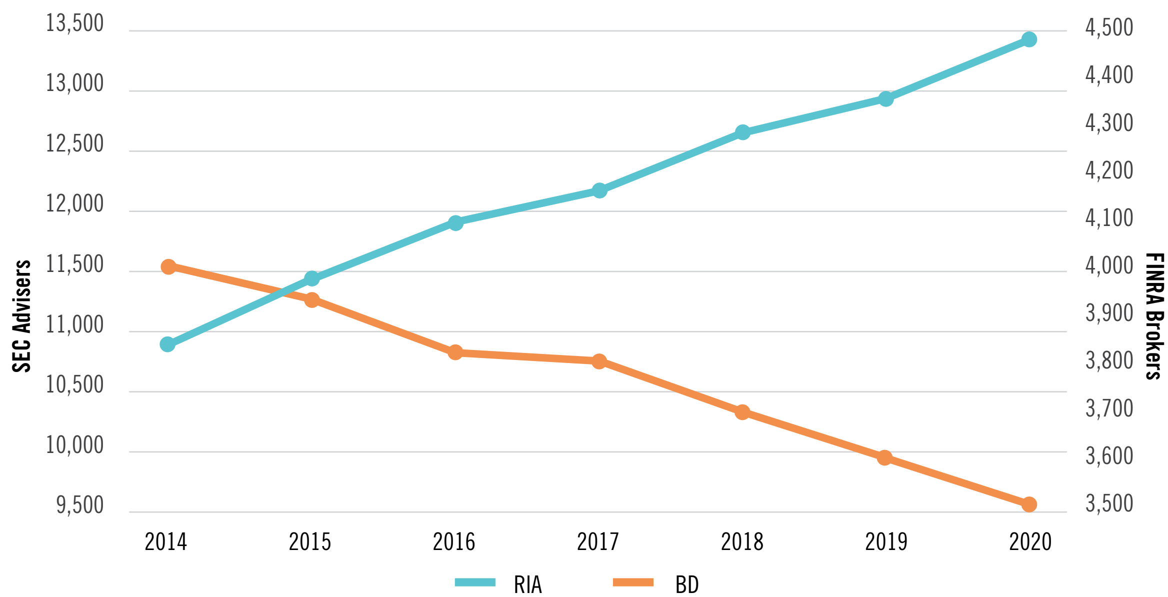
Included in the numbers cited under "Other Business Activities" and "Financial Industry Affiliations" are broker-dealer relationships, where investment advisers are either dually registered as broker-dealers or are affiliated (through common ownership and/or control) with broker-dealers. Those advisers affiliated with broker-dealers increased slightly (by 0.9 percent) to 2,379. Since 2014, FINRA membership has fallen 13.5 percent from 4,068 to 3,517 in December 2019, while the number of registered representatives has stayed largely flat, decreasing from 637,707 to 624,996, during the same period.

The rates of attrition and addition for both FINRA firm membership and registered representatives have remained relatively constant since 2014, as the number of existing FINRA member firms decreased by five to six percent each year, while the number of new member firms added during this time period ranged from three to four percent each year. Similarly, the number of existing registered representatives decreased by six to seven percent during those years, with new registered representatives added at the rate of six to seven percent each year. Interestingly, the number of new registered representatives is the lowest number on record, with 39,250 individuals added.

It is too soon to determine whether the declining trend will be affected by Regulation Best Interest, which required compliance beginning on June 30, 2020. The rule was intended, in part, to prevent further decline in broker-dealer attrition but may contribute to the increasing number of advisory firms or prompt more broker-dealers to become hybrid advisers in order to offer an advisory alternative for clients.

[23] https://www.finra.org/newsroom/statistics

Chart 22: Gap Between Number of Advisers and Broker-Dealers Widens



	2014	2015	2016	2017	2018	2019	2020
RIA	10,895	11,473	11,847	12,172	12,578	12,993	13,494
BD	4,068	3,943	3,835	3,813	3,712	3,607	3,517

Solicitors and Referral Compensation

Advisers were more likely to have solicitor relationships with third parties in 2020 than in prior years. The number of advisers that paid third parties for referrals increased by 1.8 percent (from 3,574 in 2019 to 3,639 in 2020), while the number of advisers that had relationships in which they were paid for referring clients to third parties increased by 7.2 percent (from 805 to 863).

There was a modest increase of 2.5 percent in the number of firms or other persons that solicit advisory clients on behalf of advisers (from 313,625 in 2019 to 321,588 in 2020). The 2020 total supports the dramatic increase in the number of solicitors we first saw in 2019. That increase of 77.7 percent over 2018 totals was attributed primarily to digital advice platforms' "refer a friend" programs in which the referring client and that client's referred client are each rewarded a fixed dollar amount per completed referral. A significant number of clients are thus treated as solicitors, and the number of client-solicitors generally grows in lockstep with the growth of the total client base. As noted below, the SEC proposed amendments to the Cash Solicitation Rule in November 2019. It is uncertain how an amended rule will apply to digital advisers' solicitation practices.

The proposed rule would include any form of compensation for referrals – not just cash – within the scope of the rule. It would also allow for a *de minimis* exception if a referral fee is less than $100 over a 12-month period and would require that advisers using solicitors have a reasonable basis to believe that the solicitor is complying with the terms of the agreement between the solicitor and the adviser. In a significant change from the current rule, the proposed rule would apply to solicitations of private funds.

REFERRAL PAYMENTS

2018 saw the introduction of a new question on Form ADV, which asks advisers if they compensated their related persons (including employees and affiliates) for client referrals. The question asks for cash and non-cash compensation above and beyond the employee's regular salary. The number of firms that made referral payments to their related persons increased in the past year from 2,443 in 2019 to 2,505 in 2020.

Websites and Social Media

Investment advisers are increasingly using multiple electronic media platforms to connect with clients and prospective clients. The number of investment advisers with at least one social media platform or website continued to increase, going from 11,538 in 2019 to 12,047 in 2020. The number of advisers with only one website fell 10 percent (from 5,146 to 4,936, representing almost 37.0 percent of advisers), while advisers using more than one social media platform or multiple websites grew by 11.2 percent to more than half of all advisers (7,111 firms or 52.7 percent). Firms with multiple websites are typically those that allow their investment adviser representatives to operate their own websites. Indeed, 113 firms reported over 20 web addresses, nine firms reported over 200 web addresses, and one outlier firm reported 1,083 separate web addresses.

Social Media: A Square Peg in the Advertising Rule's Round Hole

Changes to the Advertising Rule Proposed in 2019

One important reason that investment advisers have been reluctant to use social media to attract clients is that almost all social media posts are subject to the SEC's stringent Advertising Rule under the Advisers Act. The Advertising Rule has not been materially amended since its adoption in 1961. The current regulatory framework governing advertising by investment advisers is unnecessarily complex, overly broad in reach, unduly prescriptive, and involves a complex maze of enforcement actions and several decades' worth of SEC staff no-action letters and interpretive releases that are difficult to decipher and apply to evolving circumstances.

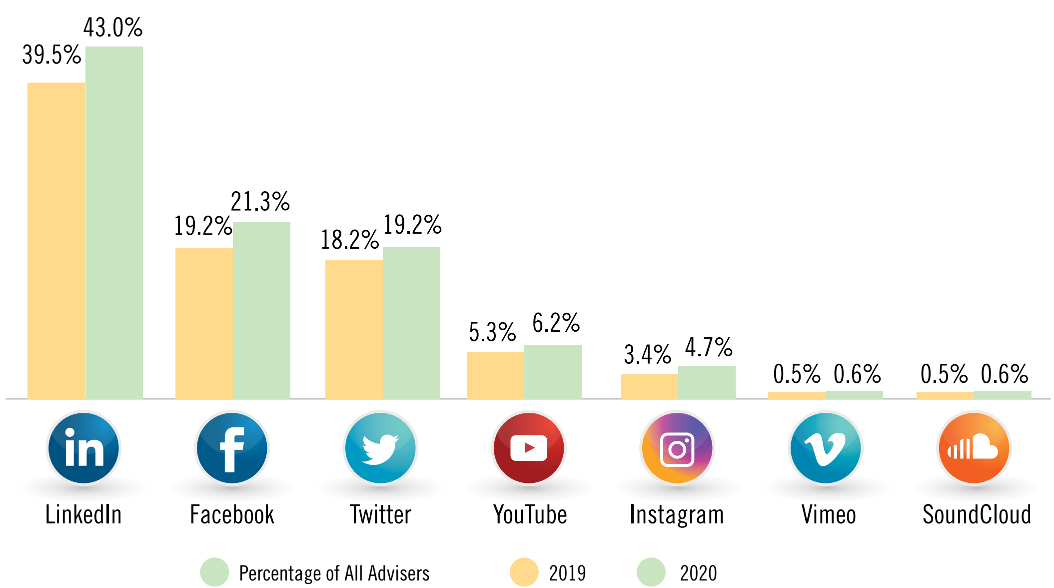
The Advertising Rule prohibits or restricts client testimonials, references to past specific profitable investment recommendations, and portfolio performance without substantial disclosure. Applying the Advertising Rule to traditional media is already a challenge, let alone to interactive environments. Help may be coming if the comprehensive amendments to the Advertising Rule that the Commission proposed in November 2019 are adopted. The proposed rule would move advertising compliance from a rules-based model to a risk-based (or principles-based) model, under which an adviser would be required to develop and enforce policies and procedures to prevent its advertisements from being false or misleading. The risk-based approach envisioned in the proposal, if adopted, could make social media more attractive for advisers, although the proposed rule also includes onerous requirements for the review and presentation of advertisements.

As was the case last year, LinkedIn is the preferred social media site for advisers, with over 44.0 percent of all advisers (5,976) reporting at least one LinkedIn page – a 16.0 percent increase since 2019. While LinkedIn is typically considered a business and professional networking platform, it does offer marketing and advertising services.

Consumer-oriented services such as Facebook and Twitter are by far the next most popular platforms among advisers, with Facebook claiming 2,869 adviser users (up 15.0 percent from 2019) and Twitter being used by 2,593 advisers (up 10.0 percent from 2019). While these increases are more modest than those seen in 2019, the fact that users are steadily increasing every year indicates that firms, while still generally reluctant, are starting to embrace social media as a necessary element of their marketing strategies, despite the compliance challenges they present. It will be interesting to see whether the proposed amendments to the Advertising Rule, if adopted, will result in an increase in the number of advisers using social media.

Other social media platforms used by advisers include YouTube (830, up 20.0 percent since 2019), Instagram (639, up 45.0 percent), Vimeo (84, up 25.0 percent), and SoundCloud (77, up 17.0 percent).

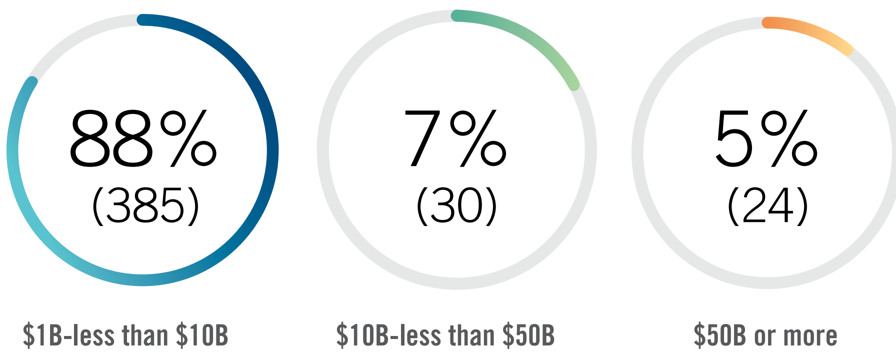
Chart 23: Investment Adviser Social Media Use



Adviser Balance Sheets

As a result of the SEC's effort to obtain more precise data for use in rulemakings after the Dodd-Frank Act, Form ADV requires advisers with $1 billion or more in balance sheet assets (not RAUM) to report their assets within one of three specified ranges. Despite the inclusion of an instruction explaining that "assets" refers to the adviser's total assets on its own balance sheet rather than the assets that it manages on behalf of clients, it appears that many advisers still respond based on their RAUM. For example, in 2020, 439 advisers claimed to have more than $1 billion on their own balance sheets, a three percent increase from the 427 firms that responded to this question in 2019. However, publicly available financial data show that very few advisers have such large balance sheets. With that caveat, here is how these 439 firms responded in 2020:

Chart 24: Advisers with Balance Sheet Assets Over $1 Billion



Umbrella Registration

Form ADV permits a single registration for certain groups of private fund advisers operating as a single advisory business.[25] 923 advisers (6.8 percent) used Form ADV to register more than one investment adviser under an umbrella registration. 3,404 responses identifying relying advisers (*i.e.,* other advisers eligible to register with the SEC, that are controlled by or under common control with the filing adviser, and conduct a single advisory business, that rely on a filing adviser to file and amend a single Form ADV umbrella registration on its behalf) are listed, which is up by 19.9 percent from 2,839 in 2019.

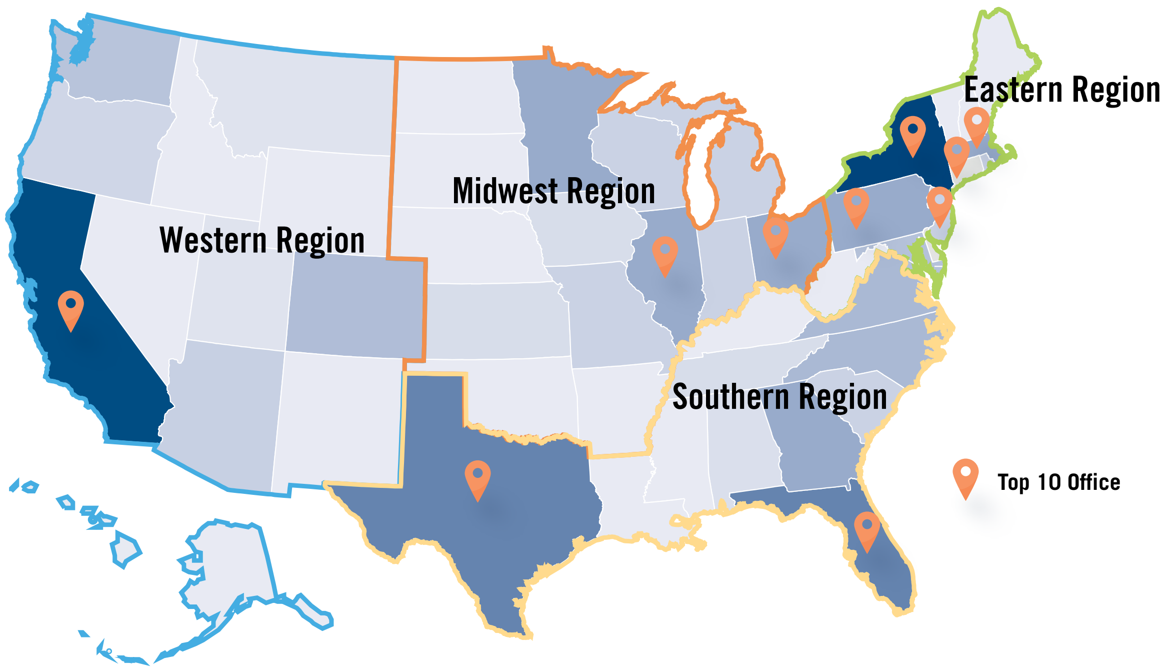
[25] Conditions for using umbrella registration include:

- The filing adviser and each relying adviser: (i) advises only private funds and clients in SMAs that are qualified clients (ii) that are otherwise eligible to invest in the private funds advised by the filing or a relying adviser and (iii) whose accounts pursue investment objectives and strategies that are substantially similar or otherwise related to those private funds;
- The filing adviser has its principal office and place of business in the United States;
- Each relying adviser, its employees, and the persons acting on its behalf are subject to the filing adviser's supervision and control and are "persons associated with" the filing adviser;
- The advisory activities of each relying adviser are subject to the Investment Advisers Act and the rules thereunder, and each relying adviser is subject to examination by the SEC; and
- The filing adviser and each relying adviser operate under a single code of ethics under the Investment Advisers Act and a single set of written policies and procedures under Rule 206(4)-7 that is administered by a single CCO.

Location of Investment Advisers

Although the vast majority of advisers continue to remain in and around traditional financial centers, growth in new and emerging financial centers continues to increase. The states comprising the top 10 investment adviser locations remain unchanged from the past two years, reflecting advisers' proximity to financial and population centers.

Chart 25: Office Location Density Tracks Financial and Population Centers[26]

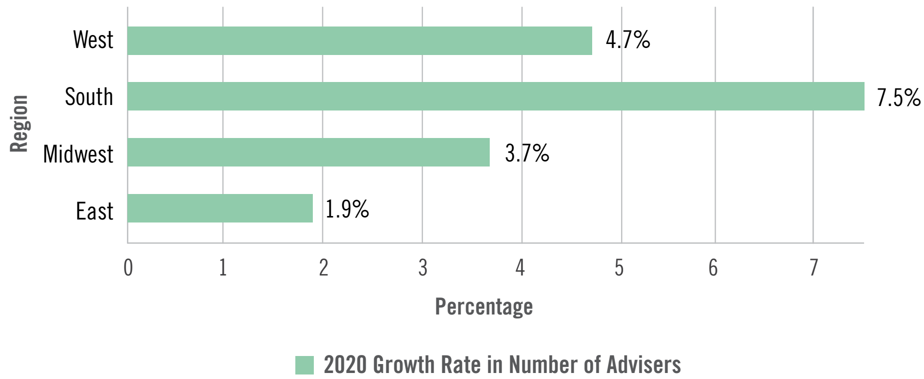


When considered on a regional basis, all regions reported an increase in advisers, led by a 7.5 percent increase in the South, which built upon increases of 5.3 and 4.4 percent in 2019 and 2018, respectively. The West grew at 4.7 percent following last year's 5.7 percent increase and the Midwest increased by 3.7 percent, with no state in the region experiencing a net loss of advisers. The East had a 1.9 percent rate of increase, continuing the recent trend toward regional parity and away from the longstanding numerical dominance of East Coast-based advisers.

Top 10 States for Advisers (by Headquarters)	Number of Locations	
	2020	2019
NY +	2,512	2,449
CA +	1,630	1,585
TX +	767	713
MA +	604	592
IL +	601	586
FL +	567	509
PA +	482	461
CT –	405	419
NJ –	319	328
OH –	305	305

[26] Includes (i) principal office and place of business at which an adviser conducts investment advisory business and (ii) the adviser's 25 largest other offices in terms of numbers of employees.

Chart 26: The West Continues to Emerge



This growth pattern echoes changes in regional and state populations, with interstate migration trends moving away from those states with higher relative tax rates for individuals and corporations and toward states popular among retirees. Technological advances in digital investment advice combined with increased proficiency in telecommuting may result in continued migration away from traditional financial and population centers. The COVID-19 pandemic in 2020 forced advisers and clients to work in a virtual environment; the virtual work environment is likely here to stay in some form and physical proximity to clients and talent may become increasingly less relevant.

Hundreds of advisers have their principal place of business in non-U.S. jurisdictions. The top five jurisdictions include the United Kingdom, Canada, Hong Kong, Switzerland, and Singapore.

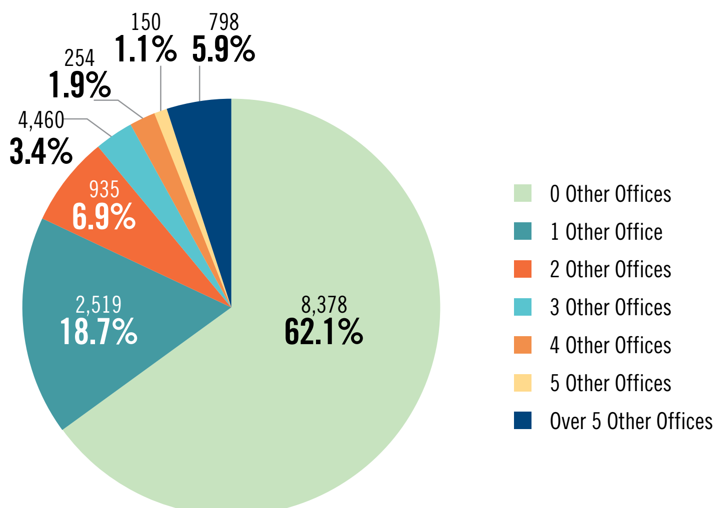
Chart 27: Five Most Common Non-U.S. Principal Places of Business

Country	Number of Advisers
United Kingdom	270
Canada	127
Hong Kong	80
Switzerland	64
Singapore	42

Investment Advisers with Multiple Offices

5,116 investment adviser firms (37.9 percent of all advisers) reported having at least one office at which they conduct investment advisory business other than their principal office and place of business, an 8.3 percent increase from 2019. Conversely, 8,378 advisers do not have any other offices, an increase of 1.3 percent from 2019. As in 2019, just over 50.0 percent of advisers with multiple offices had more than one other office. The number of these firms reporting more than five other offices remained virtually unchanged at 15.9 percent. This may reflect recent trends in acquisitions of other advisory firms as a way of expanding into new locations or permitting more remote working arrangements, as well as a rise in the number of advisers that are organized as an independent business but are also affiliated with a broker-dealer. The median number of employees performing advisory functions from each office location remained at two. If remote working arrangements become more permanent, advisers may have to consider whether they are providing investment advisory services from additional locations and these numbers could increase significantly.

Chart 28: Investment Advisers with Multiple Offices



The results show that many advisers with multiple offices (1,947 or 38.1 percent of this group) provide additional services at those offices.[27] The percentage of advisers that offer such additional services decreased 4.0 percent from 2019. Of firms with other offices offering multiple services, the most common other business functions occurring at those locations were insurance (23.1 percent) and brokerage services (21.7 percent), both of which were up only slightly in 2020, following a rise of 19 percent in each from 2018 to 2019. They were followed by accountant or accounting firm (8.0 percent, up from 7.5 percent in 2019) and CPO/CTA (which remained virtually unchanged at 6.1 percent).

[27] The Form ADV instructions for advisers that conduct additional investment-related activities at their branches are vague. It is unclear if the response should be limited to other business activities of the advisory firm itself, or if it should include all non-advisory activities conducted in the office regardless of whether those activities were under the advisory firm's supervision and control.

Chart 29: Additional Investment-Related Activities Conducted at Branch Offices

Other Business Activity:	Number of Advisers	Percentage of Advisers with Multiple Offices
Insurance broker or agent	1,181	23.1%
Broker-dealer	1,111	21.7%
Other	756	14.8%
Accountant or accounting firm	408	8.0%
Commodity pool operator or commodity trading advisor	313	6.1%
Bank	181	3.5%
Lawyer or law firm	100	2.0%
Municipal advisor	51	1.0%

Of the 756 (14.8 percent) advisers that report conducting "other" investment-related business activities at other office locations, some of the more common types described are financial planning, commission and insurance, futures commission merchant, wealth management, real estate, research, client/prospect meetings, due diligence and deal sourcing, tax preparation/planning, other investment adviser, pension consulting, and timberland management.

[28] The 11,752 figure disregards 25 advisers that marked "yes" to Item 11 and "no" to all other Item 11 questions.

Disciplinary Information

It is difficult to draw meaningful statistical conclusions from the disciplinary disclosure information provided in Form ADV, Part 1, in large part because the "true or false" and "yes or no" nature of the questions is not particularly revealing. Gleaning information contained in the disciplinary disclosure reporting pages for Form ADV, Part 1, Item 11 requires delving deep into the specifics of each disclosure event, which may or may not provide clarity or facilitate "apples to apples" comparisons. Also, the information required to be disclosed 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. However, firms can specify whether any of the events reported involve the firm or its supervised persons. 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.

Subject to these limitations, we make the following observations:

- 11,752 investment advisers (87.1 percent) reported no disciplinary history at all,[28] which is slightly higher than the 86.5 percentage of advisers that reported no disciplinary history the past two years.

- 117 investment advisers (less than 1.0 percent) reported that they or an advisory affiliate were, at the time of filing, the subject of a regulatory proceeding that could result in a "yes" answer to any part of Item 11.C, 11.D, or 11.E. This is a slight decrease from the previous year, when 128 firms answered the question affirmatively.

- In a 13.6 percent increase from 2019, 234 firms or advisory affiliates (1.7 percent) reported that the SEC or the Commodity Futures Trading Commission (CFTC) found them to have made a false statement or omission; 654 firms (4.8 percent) reported that they have been involved in a violation of SEC or CFTC regulations or statutes, which is a 5.8 percent increase from last year. Only 21 firms reported that they or an advisory affiliate have 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, which is three more than the previous year.

- 640 firms or advisory affiliates (4.7 percent) reported that the SEC or the CFTC imposed a civil money penalty on the adviser or its affiliate or that they were ordered to cease and desist from an activity; this represents a slight increase from the prior year.

- 133 firms or advisory affiliates (1.0 percent) reported that in the past 10 years, they or an advisory affiliate had been convicted of or pled guilty or nolo contendere in a domestic, foreign or military court to any felony and/or were charged with any felony, an 6.4 percent increase from last year.

Of the 1,742 advisers reporting at least one disciplinary event, 919 advisers (52.8 percent) attributed the disclosure events to an affiliate and not directly to the adviser or its supervised persons.

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[29] See the North American Securities Administrators Association (NASAA) *2020 Investment Adviser Section Annual Report*, available at https://www.nasaa.org/wp-content/uploads/2020/04/2020-IA-Section-Report-FINAL.pdf.

Explanation of Report Data

Evolution Revolution and its findings are based on Form ADV, Part 1 filed by all SEC-registered investment advisers as of May 25, 2020. Advisers are required to file specific information electronically using the Investment Adviser Registration Depository (IARD) system.

17,533 investment advisers are registered with the states, and there are 11,008 SEC notice-filed investment advisers. This report focuses solely on the 13,494 investment advisers that are registered as such with the SEC, after removing (i) 92 advisers that are using an old version of Form ADV and (ii) 101 advisers that are no longer eligible for SEC registration.

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.

The IAA and NRS have independently tabulated all the 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 percent. 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.

When obvious errors have been found in the reported data, we have made certain corrections or omissions to avoid skewed results.

Several items in Form ADV, Part 1 are commonly misunderstood and answers are misreported. Areas that are commonly misinterpreted include how to calculate RAUM, reporting of $1 billion or more in the adviser's balance sheet assets, custody, and disciplinary history questions.

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