INVESTMENT ADVISER INDUSTRY SNAPSHOT 2022

EVOLUTION REVOLUTION REIMAGINED

IAA INVESTMENT ADVISER ASSOCIATION

NRS™ a ComplySci Company

A Snapshot of the Industry in 2021

14,806
SEC-registered investment advisers

59.8%
provide asset management for individuals

64.7 million
clients

$128.4 trillion
in assets

928,505
employees

88.1%
are small businesses employing 50 or fewer people

INVESTMENT ADVISER ASSOCIATION

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

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NRS™

Compliance Confidence

For more than 35 years, National Regulatory Services (NRS), a ComplySci company, has been a leading provider of compliance consulting, technology and education to the financial services industry.

NRS consultants help our clients determine and implement their compliance strategy, minimize their risk and lower their costs through compliance program reviews, mock audits, on-going compliance partnerships and other consulting engagements. In addition, NRS technology solutions were developed based on the knowledge and expertise of NRS consultants and are tailored to meet the specific compliance needs of financial services firms. NRS provides turnkey solutions, which can be used as compliance portals for your entire firm through the NRS ComplianceGuardian™ platform.

The company is well known for its compliance education offerings, including two annual compliance conferences, numerous web seminars and the Investment Adviser Certified Compliance Professional (IACCP®) professional certification which it created and co-sponsors with the IAA.

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The IAA and NRS thank **Theresa Hamacher**, *President*, Versanture Consulting, for her work on this report.

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Investment Adviser Industry Snapshot 2022

Evolution Revolution Reimagined

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

This year, we've built on the changes that we made last year, adding even more charts, tables, and analysis, to make it easy to see and understand the trends. For those who want to dive into the numbers, we have posted detailed data tables online, in downloadable Excel files.

Again this year, the report paints a picture of a vibrant industry:

Growth was especially strong in 2021, reflecting the economic rebound driven by the post-pandemic reopening and the stock market surge. The number of SEC-registered advisers, the number of clients they serve, the assets they manage, and the number of people they employ all reached record highs in 2021.

Individual investors are increasingly seeing the value of the fiduciary advice offered by investment advisers. As fiduciaries, investment advisers must always act in the best interest of their clients. Investors are increasingly engaging investment advisers, which provide investment management continuously (rather than transaction by transaction) and are fiduciaries in all aspects of their advisory relationships. Over the past 3 years, the number of individual clients working with investment advisers grew by 47.6%, with the assets managed by those advisers gaining 80.3%.

The industry is continually evolving to better serve client needs. Advisers are always adapting their product offerings to address changing client needs. For example, over the past 10 years, fixed and hourly fee structures have become more common, responding to the growing investor interest in financial planning. At the same time, a significant number of new firms – many with new business models – enter the industry each year.

Of course, the environment has changed significantly since 2021 – the period covered in this report. Inflation has surged around the world, the prospects for continued economic growth are cloudy, and the financial markets have retreated. Next year's report could have a different tenor.

But whether growth or recession, up markets or down, the investment adviser industry is an important employer and a vital contributor – providing an essential service to the investors in them. We hope that this report adds to your understanding of this dynamic industry.

Karen Barr
President & CEO
Investment Adviser Association

John Gebauer
President
NRS

New and Noteworthy

Growth in the number of private funds accelerated in 2021. Growth was in the double digits for all types of private funds except hedge funds and liquidity funds. See Figure 5G in Part 5 | Investment Insights for details (and see the Appendix to Part 5 for a close look at private fund operational practices).

One-third of advisers provided insights on marketing practices with their answers to 8 new questions in Form ADV. (All advisers will be required to answer these questions beginning November 2022.) Notably, over one-quarter of the respondents indicated that they include performance information in advertisements. See Part 6 | Business Insights for more information.

Growth has been strongest in the South. Over the past 2 years, gains in advisers in the South have outpaced gains in other parts of the country. Florida has seen the strongest gains in number of advisers, while the number of advisers in New York has fallen. See Figures 3H and 3I in Part 3 | Employees for details.

Asset growth was highest for the largest advisers . . . Advisers with over $100 billion in assets have experienced compound annual growth in assets of 14.9% over the past 4 years, far ahead of smaller advisers. See Figure 1F in Part 1 | Size and Growth for details.

. . . But employment growth was driven by firms with $5 billion to $100 billion in assets. In 2021, firms in this size range (which account for 10.7% of advisers) contributed half of the new jobs in the industry. Job growth was strong in 2021, with a gain of 5.5%. See Figure 3F in Part 3 | Employees for details.

Is There a "Typical" Adviser?

The 2022 edition of the *Investment Adviser Industry Snapshot* dives into this question.

The bottom line:

- The wide range in adviser size and client focus makes it hard to describe a "typical" adviser. Investment advisers serve a broad range of clients, from Main Street investors to pension plans and private funds, through a broad range of firms, from start-ups to multinationals.
- Small advisers are the backbone of the advisory community: Over 88% of advisers are small businesses employing 50 or fewer people. Factoring in assets, two-thirds of advisers both employ 50 or fewer people and manage less than $1 billion in assets.
- The profile of the typical adviser varies with client focus. Advisers that specialize in providing advice to individual investors are especially likely to be small.
- The median adviser operates from a single office and has mostly individual clients, 8 employees, and $412 million under discretionary management.

See Table 2A in Part 2 | Clients and Table 3A in Part 3 | Employees for details.

About the Data

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

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

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

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

Notes regarding the data in this report:

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

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

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

For example, an investment adviser with a fiscal year end of December 31, 2021, must file Form ADV Part 1A by March 31, 2022, reporting data as of December 31, 2021, for most questions and reporting assets under management calculated within 90 days of March 31, 2022.

Important Change in Data Labeling

Please note that the *Investment Adviser Industry Snapshot* (first published in 2021) uses a different data labeling convention than the *Evolution Revolution* reports published in 2020 and previous years. To summarize, all "2020" data from the *Evolution Revolution* reports will appear as "2019" data in this report, all "2019" data in the *Evolution Revolution* reports will appear as "2018" data here, etc.

The *Evolution Revolution* reports labeled data with the date that the Forms ADV were on file with the SEC. For example, data labeled as "2020" in the *Evolution Revolution* report published in September 2020 was drawn from the most recent Forms ADV on file with the SEC by May 25, 2020.

The *Adviser Snapshots* label data with the date of the information that was reported in those Forms ADV. For example, the information in the Forms ADV on file with the SEC as of May 25, 2020, was almost entirely from 2019. This data is appropriately compared to 2019 data from other sources. Therefore, the *Adviser Snapshots* label this data as "2019."

Data for any given year includes information from the most recent Forms ADV Part 1A filed with the SEC as of a specified date in the second quarter of the following year. For example, data for 2021 includes data from the most recent Forms ADV Part 1A filed with the SEC as of April 8, 2022.

Because most advisers have a December fiscal year end, this data is heavily weighted toward calendar year-end information. In 2021, 95.0% of advisers had a December fiscal year end.

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

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

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

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

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

Advisers. The following advisers have been excluded from the data tabulations for the years 2011 through 2021:

- *Advisers using certain older versions of Form ADV.* In 2021, 32 advisers using versions of Form ADV earlier than the October 2021 version were excluded. These advisers managed $147.9 billion in assets.
- *Advisers no longer eligible for SEC registration,* typically because their assets under management have fallen below $90 million, meaning that they are now required to register with state regulators. In 2021, 91 advisers were no longer eligible for SEC registration. These advisers managed $2.6 billion.

Responses. Assumptions with regard to responses:

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

Certain questions are particularly prone to error or misinterpretation. For example, instructions to Section 5.K.(2) of Schedule D state that advisers with $10 billion or more in separately managed account (SMA) assets are to complete question (a) while advisers with $500 million to $10 billion in SMA assets are to complete question (b). However, some advisers mistakenly answer both questions. If these errors are frequent enough to appear to affect the overall data, it is noted in the report.

A Short History of Form ADV

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

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

January 2001
Investment advisers begin submitting Form ADV Part 1 electronically, via the Investment Adviser Registration Depository (IARD).

September 2001
The SEC unveils the Investment Adviser Public Disclosure (IAPD) website, which makes Form ADV information readily available to the public.

December 2002
Digital advice-only platforms (relying on the "Internet adviser" exemption) may register with the SEC, even if they are below the assets under management threshold.

December 2009
Additional questions about custody are added to Form ADV.

October 2010
Form ADV Part 2 changes from a check-the-box format to narrative responses, consisting of a brochure and brochure supplements.

June 2011
The SEC increases the asset size threshold for SEC registration to $100 million from $25 million. Private fund advisers (managing private fund assets over a specified threshold) are required to register as investment advisers and file Form ADV.

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

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

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

August 2016
The SEC adopts changes to Form ADV Part 1 that require advisers to provide additional data about separately managed accounts. In addition, advisers must disclose more information about their businesses, including data on clients, social media presence, branch offices, custodians and outsourced chief compliance officers.

Umbrella registrations are permitted by filing new Schedule R.

June 2019
Advisers are required to provide retail clients with Form CRS (Form ADV Part 3) by July 2020. Form CRS provides brief summary information on services, fees and costs, conflicts of interest, required standard of conduct, and legal and disciplinary history.

March 2020
Due to the pandemic, the SEC temporarily extends the deadline for filing annual updating amendments to Form ADV by 45 days.

December 2020
In the new investment adviser marketing rule, the SEC mandates additional questions about marketing practices, to be added to Form ADV in 2022. Advisers complying with the rule must answer these questions. However, advisers are not required to comply with the rule until November 4, 2022. Approximately one-third of advisers answered these questions in the Forms ADV on file as of April 8, 2022. (See Part 6 | Business Insights for more detail.)

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

1 Size and Growth

The number of SEC-registered investment advisers and the aggregate assets they managed both reached record highs in 2021.

$128.4 trillion

in assets were managed by

14,806

SEC-registered advisory firms at the end of 2021.

IN BRIEF

In 2021, assets managed by SEC-registered investment advisory firms increased by 16.7%, while the number of advisers grew by 6.7%.

Growth in assets, the number of advisers, and average assets per adviser was especially strong in 2021, reflecting the economic rebound driven by the post-pandemic reopening and concomitant stock market surge.

While 87.9% of investment advisers have less than $5 billion in assets under management, 92.5% of industry assets are managed by firms with assets under management above $5 billion. Asset growth has been strongest for advisers with more than $100 billion in assets under management.

The industry is dynamic, with significant turnover in advisers, especially among advisers with less than $1 billion in assets. Mergers and other types of reorganizations have been a significant contributor to this turnover.

In each of the past 8 years, the number of SEC-registered investment advisers has increased, while the number of brokerage firms has declined.

Firms and Assets

In 2021, assets managed by SEC-registered investment advisory firms increased by 16.7%, reaching a record high of $128.4 trillion.

Industry assets under management have increased in 18 of the past 21 years. Assets declined in 2002 and 2008 due to market conditions.

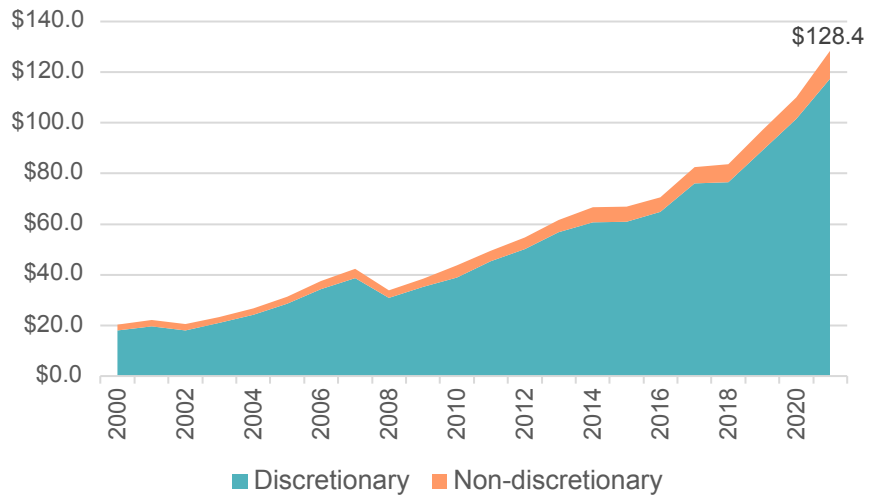
As in prior years, almost all assets were managed on a discretionary basis (91.5% in 2021).

For detail, see Data Table 1A (available online).

FIGURE 1A

Assets Under Management Reached a Record High in 2021

Total Industry Assets Under Management, $ Trillions



In 2021, the number of SEC-registered investment advisory firms increased by 926 firms, or 6.7%, versus the prior year – reaching a record high of 14,806 firms.

The number of SEC-registered firms has increased in 19 of the past 21 years. Registrations declined in 2010 and 2011 when the minimum size threshold for SEC registration increased to $100 million in assets under management (from $25 million).

The compound annual growth rate in the number of advisers over the 21-year period was 3.9%.

Over two-thirds of advisers (70.1%) are structured as a "pass through" entity (a limited liability company, limited partnership, limited liability partnership or partnership). By contrast, in the year 2000, over two-thirds of advisers were corporations.

For detail, see Data Table 1B (available online).

A Fiduciary Responsibility to Clients

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

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

An adviser's duty of care includes:

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

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

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

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

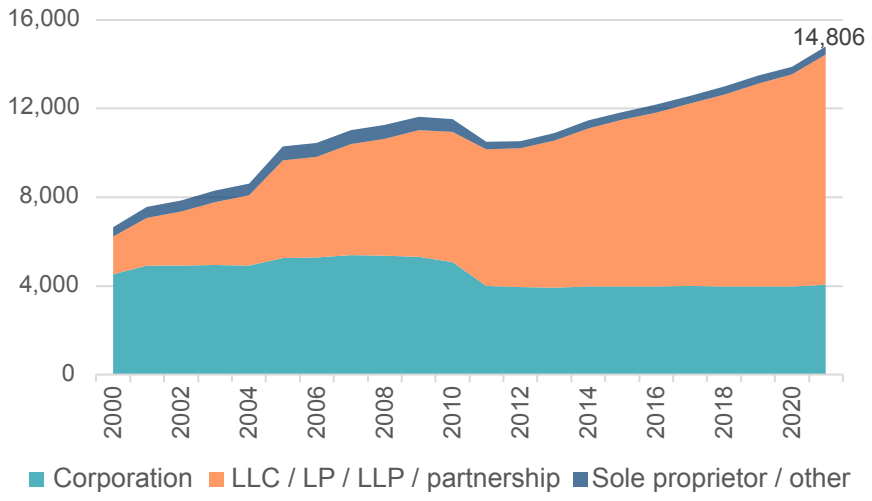
In addition to the duty of care and loyalty, advisers have other obligations under the fiduciary duty, including, for example, having a compliance program, voting proxies in a client's best interest, and keeping client confidences. Advisers may also have obligations under relevant state and ERISA (*i.e.*,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

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

FIGURE 1B

The Number of Advisers Reached a Record High in 2021

Number of Advisers by Form of Organization



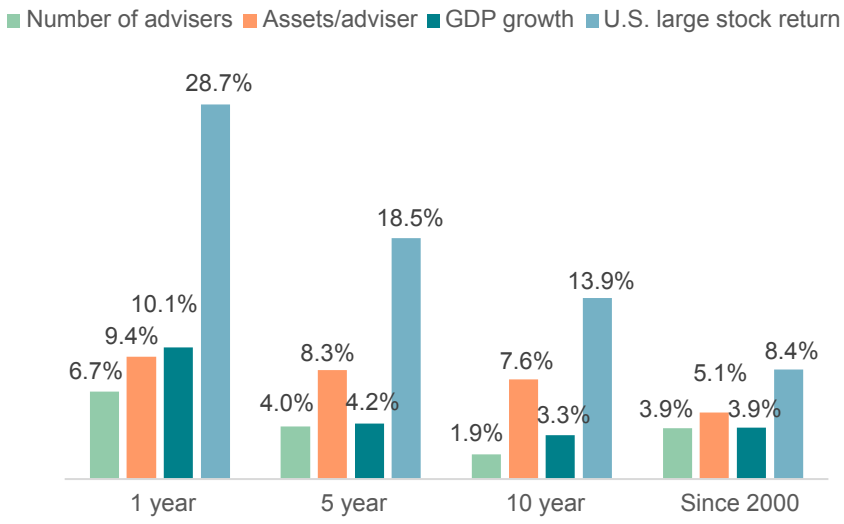
Over the past 21 years, the growth in the number of SEC-registered advisers has been consistent with economic growth as measured by GDP. Growth in average assets under management has been stronger than the growth in the number of advisers, boosted by strong financial market returns.

Growth in assets, the number of advisers, and average assets per adviser was especially strong in 2021, reflecting the economic rebound and stock market surge.

FIGURE 1C

Economic Growth and Market Returns Drive Industry Growth

Annualized Growth/Return, Periods Ended 2021



Source: Form ADV Part 1A; Bureau of Economic Analysis; Duff & Phelps, CFA Institute Research Foundation and Morningstar, *Stocks, Bonds, Bills, and Inflation*, 2021 Summary Edition

A Varied and Dynamic Industry

SEC-registered investment advisers range in size from local boutiques to multinational corporations.

In 2021, 87.9% of advisers had less than $5 billion in assets under management, with the majority having between $100 million and $1 billion. Roughly 9 in 10 advisers are small businesses employing fewer than 50 people. (See Part 3 | Employees for more detail.)

Over the past 4 years, the number of advisers has increased in all size categories except advisers with less than $100 million in assets under management. The decline in the latter is most likely due to the very strong financial market returns, which lead to rapid growth in assets under management, which, in turn, quickly moves advisers out of the smallest size category.

Growth was strongest among firms with over $100 billion in assets under management. The number of these largest firms grew to 210 from 147 in 2017 (an annualized increase of 9.3%).

Turning to assets, in 2021, 92.5% of industry assets were managed by firms with more than $5 billion in assets under management, with approximately two-thirds managed by the 210 largest firms.

For detail, see Data Tables 1C and 1D (available online).

FIGURE 1D

Most Advisers are Smaller . . .

Number of Advisers

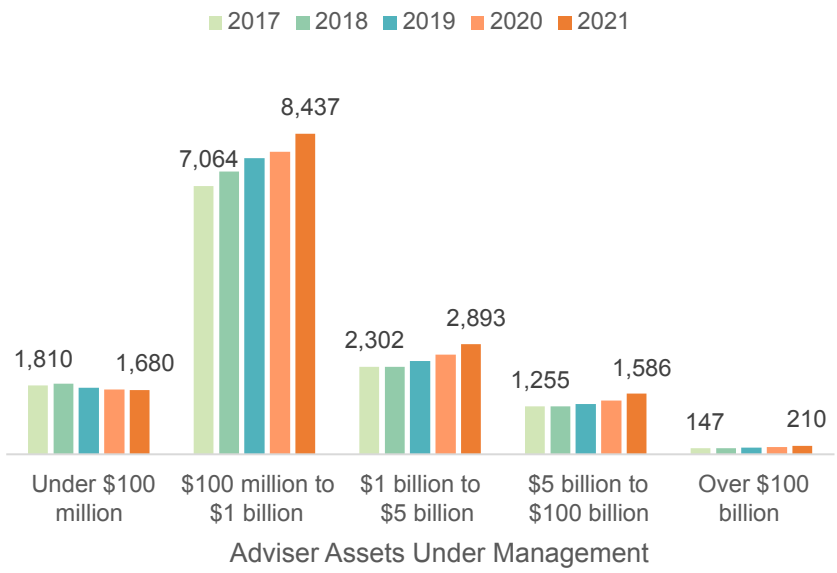
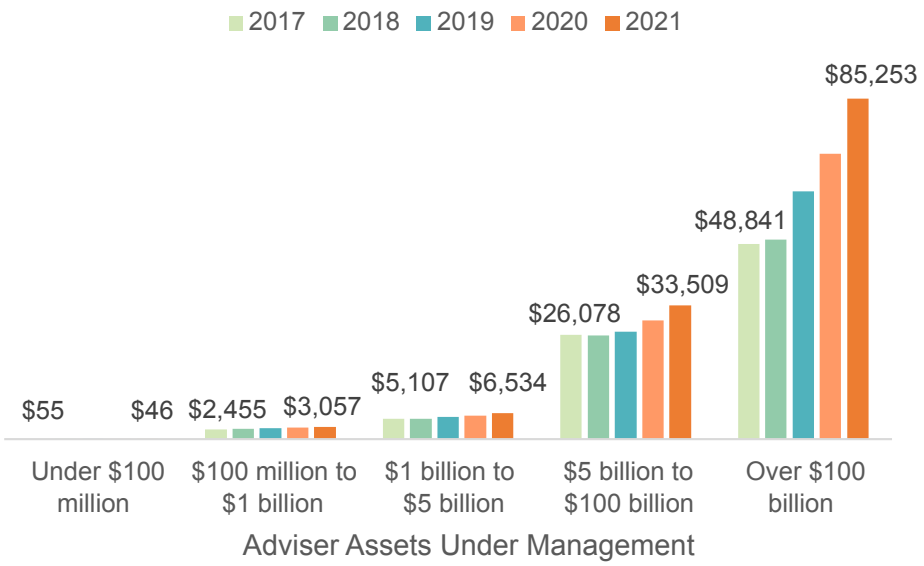


FIGURE 1E

. . . While Larger Firms Manage Most of the Assets

Assets, $ Billions



Advisers with over $100 billion in assets have experienced the strongest growth in assets under management over the past 4 years (with compound annual growth in assets of 14.9%).

These gains are partly the result of firms moving up into this size category. For example, in 2021, 33 advisers were added to the largest size category while 8 advisers dropped out; the net additions contributed 4.0% of the 19.3% gain in assets under management in this category.

However, most growth of firms with more than $100 billion in assets resulted from factors other than firms moving into the category, such as market-driven appreciation in the value of assets under management, organic growth (from increased investor demand for products and services offered by these advisers), and merger and acquisition activity. Focusing again on 2021, 15.3% of the 19.3% gain in assets under management in this category were due to these other factors.

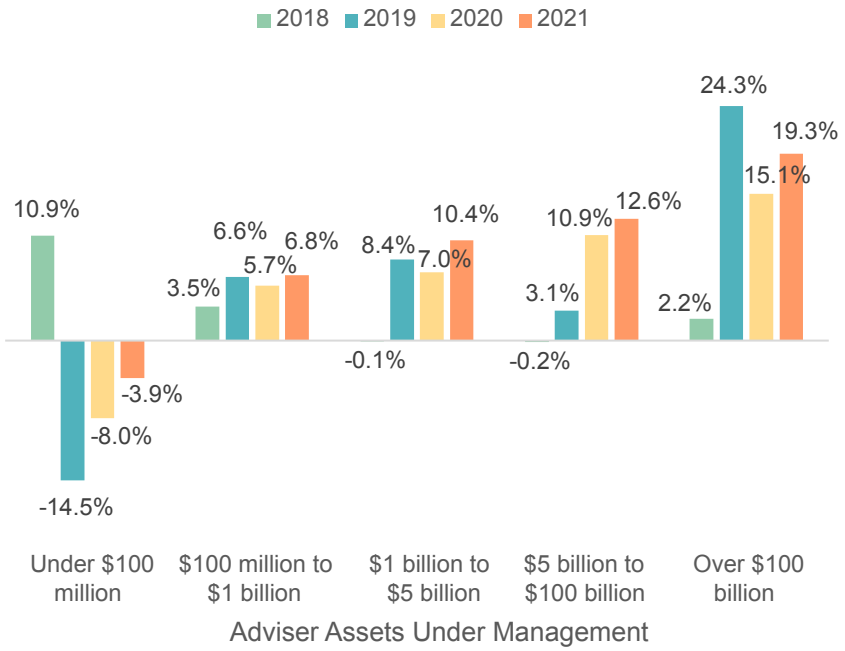
By contrast, assets of firms with less than $100 million in assets under management generally declined. However, successful firms in this size range may have grown sufficiently to move into the next larger category.

Growth for mid-sized firms (*i.e.,* those with $100 million to $5 billion in assets) experienced moderate growth of around 6% annualized over the 4-year period ended in 2021.

FIGURE 1F

Asset Growth Has Been Strongest for the Largest Firms

Percentage Change in Assets



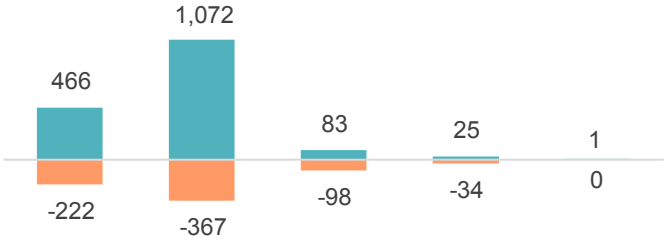
The industry is dynamic, with a significant number of advisers entering and exiting the industry each year. This turnover is concentrated in advisers with less than $1 billion in assets.

For example, in 2021, there were 1,647 new advisers and 721 advisers that terminated their registrations, for a net addition of 926 firms. Most of the new advisers were smaller (with less than $1 billion in assets). Note that, while many new advisers are formed as new business initiatives or to support new fund launches, other new advisers (especially larger new advisers) are created as the result of mergers or other reorganizations.

FIGURE 1G

New Entrants are Likely to be Small

Number of Firms, 2021



	Less than $100 million	$100 million to $1 billion	$1 billion to $5 billion	$5 billion to $100 billion	Over $100 billion
New	466	1,072	83	25	1
Terminated	-222	-367	-98	-34	0
Net	244	705	-15	-9	1

Adviser Assets Under Management

SEC-Registered Advisers in Context

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

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

See Data Table 1E (available online) for detail on the reasons for SEC registration.

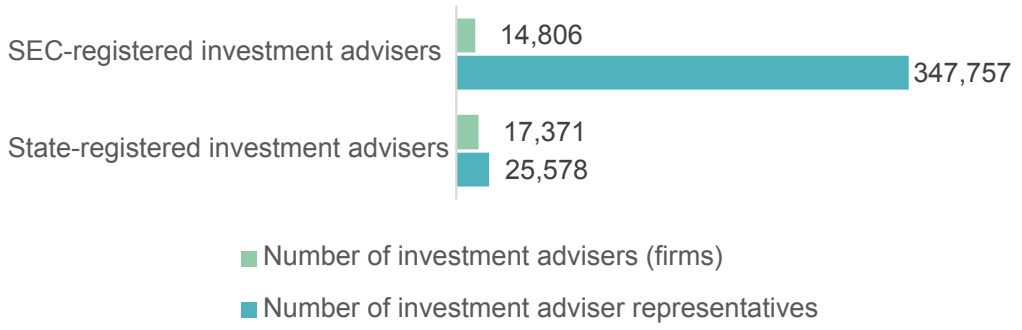
Investment advisers that are not eligible to register with the SEC must register in the states where they have a place of business and/or have more than a *de minimis* number of clients. Though there are fewer SEC-registered advisers than state-registered advisers, they account for most of the assets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

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

FIGURE 1H

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

Number of Firms, Number of Representatives, 2021



Source: Form ADV Part 1A; *NASAA 2022 Investment Adviser Section Annual Report*

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

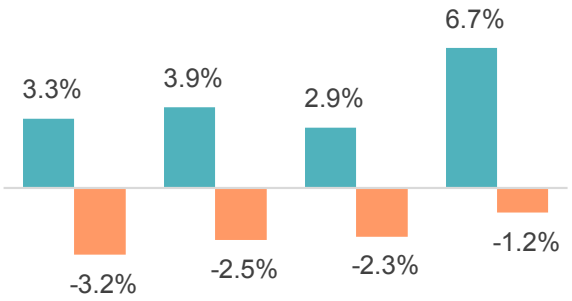
Brokerage firms are not fiduciaries to their clients; instead, they are subject to a standard of conduct as defined by Regulation Best Interest which requires that brokers act in their retail customer's best interest at the time they make a securities recommendation to the customer. Brokers must meet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

There are fewer brokerage firms than investment advisory firms, and the number of those brokerage firms has been declining, while the number of SEC-registered investment advisers has been increasing.

FIGURE 1I

Diverging Trends | Investment Advisers and Brokerage Firms

Number of Firms



	2018	2019	2020	2021
Percentage change in number of investment advisers	3.3%	3.9%	2.9%	6.7%
Percentage change in number of brokerage firms	-3.2%	-2.5%	-2.3%	-1.2%
SEC-registered investment advisers	12,993	13,494	13,880	14,806
Brokerage firms	3,607	3,517	3,435	3,394

Note: Number of SEC-registered investment advisers and brokerage firms at year end.
Source: Form ADV Part 1A; *FINRA Industry Snapshot 2022*.

Licensed Financial Professionals

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

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

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

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

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

However, brokerage firms are significantly larger with regard to the number of licensed financial professionals.

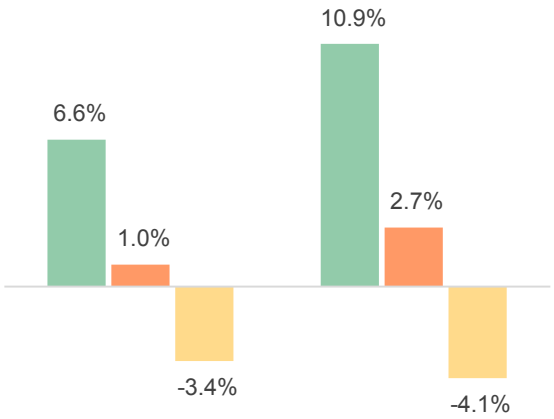
Over the past 2 years, the number of professionals licensed as investment adviser representatives (including professionals dually licensed as both an investment adviser representative and a registered representative) has been increasing. By contrast, the number of professionals licensed solely as registered representatives has been declining.

At brokerage firms, the decline in the number of registered representatives has outpaced the increase in the number of investment adviser representatives, so that the total number of licensed professionals at brokerage firms declined from 2019 to 2021.

FIGURE 1J

Financial Professional Licensing Shows a Similar Trend

Number of Firms



	2020	2021
Percentage change in number of investment adviser representatives	6.6%	10.9%
Percentage change in number of dually registered representatives	1.0%	2.7%
Percentage change in number of registered representives	-3.4%	-4.1%
Investment adviser representatives	69,842	77,468
Dually registered representatives	299,613	307,590
Registered representatives	317,936	304,867

Note: Number of investment adviser representatives and dually registered representatives includes representatives for both SEC-registered and state-registered investment advisers. Number of investment adviser representatives, dually registered representatives, and registered representatives at year end.
Source: *FINRA Industry Snapshot 2022.*

Appendix | Investment Adviser Representatives (IARs)

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

Investment advisory firms initiate the registration process by filing Form U4 with FINRA. The data in these Forms U4 provides an overview of the IAR community. All data in this section is from Forms U4 on file with FINRA on May 19, 2022.

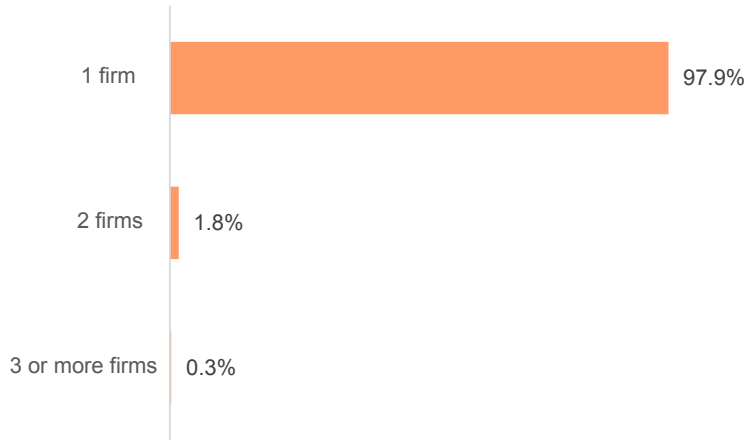
As mentioned, SEC-registered and state-registered investment advisers employed over 375,000 IARs at year-end 2021.

Most IARs are registered with only one advisory firm.

FIGURE 1K

Most IARs Work for a Single Firm

Number of IARs

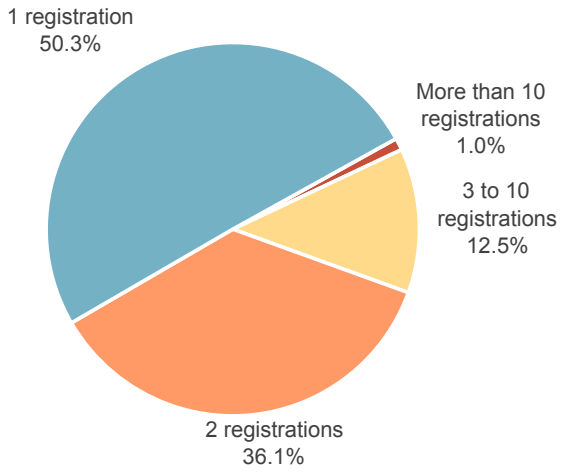


However, half of IARs are registered with more than one state. On average, an IAR has 2 registrations.

FIGURE 1L

Half of IARs are Registered in More than One State

Number of IARs



With regard to qualifying exams:

56.7%
of IARs have taken the Uniform Securities Agent State Law Exam (Series 63)

50.8%
have taken the Uniform Combined State Law Exam (Series 66)

39.2%
have taken the Uniform Investment Adviser Law Exam (Series 65)

97.3%
have taken at least one exam

Some IARs hold additional designations. Notably:

12.2%
are Certified Financial Planners

2.9%
are Certified Financial Consultants

2.6%
are Chartered Financial Analysts

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

Most IARs make no disclosures (83.2%). Of the IARs making a disclosure, 85.9% report an issue in only one category.

Over half of disclosures arise from consumer complaints.

Consumer Complaints are the Most Common Type of Disclosure

Disclosure Type	% of IARs
Consumer-initiated arbitration or civil litigation	11.1%
Filed for bankruptcy	2.4%
Criminal conviction	1.8%
Employment terminated	1.5%
Regulator action	1.5%
Unsatisfied judgments or liens	1.0%

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

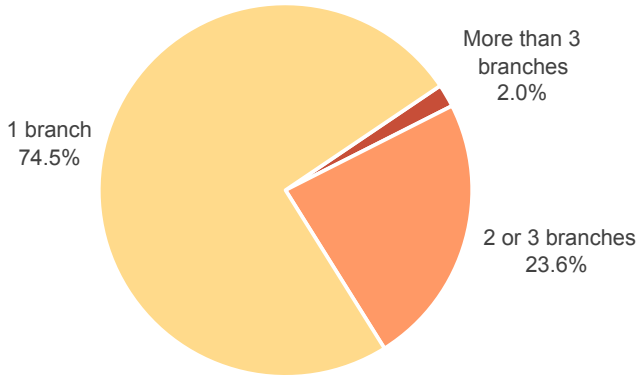
- 14.1% of IAR registrations (with status "Approved") are in Texas. For comparison, only 6.7% of investment advisory firms have their principal office in the state.
- Just 5.4% of IARs (with status "Approved") are registered in New York, even though 18.8% of advisory firms are headquartered there.

While most IARs work from a single branch office, approximately one-quarter work from 2 or more branches.

FIGURE 1M

Most IARs Work from a Single Branch Office

Number of IARs



2 Clients

The number of clients of SEC-registered investment advisers grew 6.4% in 2021, reaching a record high.

In 2021, investment advisers served

64.7 million

clients, including 53.0 million asset management clients.

59.8%

of advisers provided asset management services for individuals.

IN BRIEF

In 2021, the number of clients served by SEC-registered investment advisory firms increased by 6.4%, reaching a record high of 64.7 million.

Advisers serve a broad range of clients in three segments: individuals, pooled vehicles, and institutions. Advisers are most likely to serve individual clients; growth in this client segment has been especially strong. More than one-third of advisers have non-U.S. clients.

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

A Growing Client Base

Investor demand for advisory services was strong during the second pandemic year. In 2021, the number of clients served by SEC-registered investment advisory firms increased by 6.4%, reaching a record high of 64.7 million.

These clients fell into two groups:

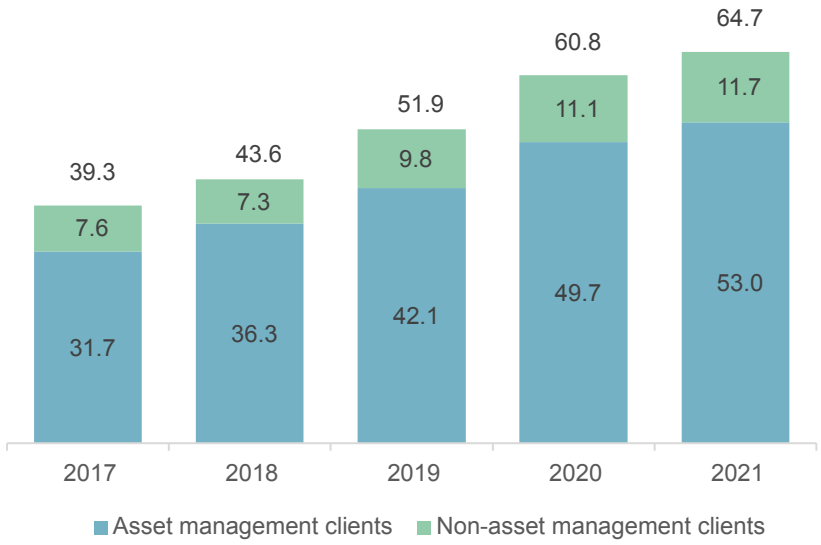
- *Asset management clients.* Investment advisers provided asset management services for 53.0 million clients in 2021, an increase of 6.6% compared to the previous year.
- *Non-asset management clients.* These clients did not use asset management services but received other types of investment advisory services, such as help with developing a financial plan. The number of these non-asset management clients increased by 5.5% in 2021.* Over one-third of the non-asset management clients were clients of a single adviser that provides services to individuals exclusively through a digital platform.

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

FIGURE 2A

The Number of Clients Reached a Record High in 2021

Number of Clients, Millions



*Total corrects underreporting by one adviser and omits apparent overreporting by 5 advisers. There appears to be considerable confusion with regard to reporting non-asset management clients, particularly for clients receiving model portfolios.

Advisory Services Offered to Clients

The primary service offered by investment advisers is portfolio management. In 2021, 97.2% of advisers offered portfolio management services.

However, 61.0% of advisers offered other advisory services to their clients as well.

The most common of these services is financial planning. In 2021, 43.2% of advisers provided financial planning services, serving approximately 4.8 million clients.

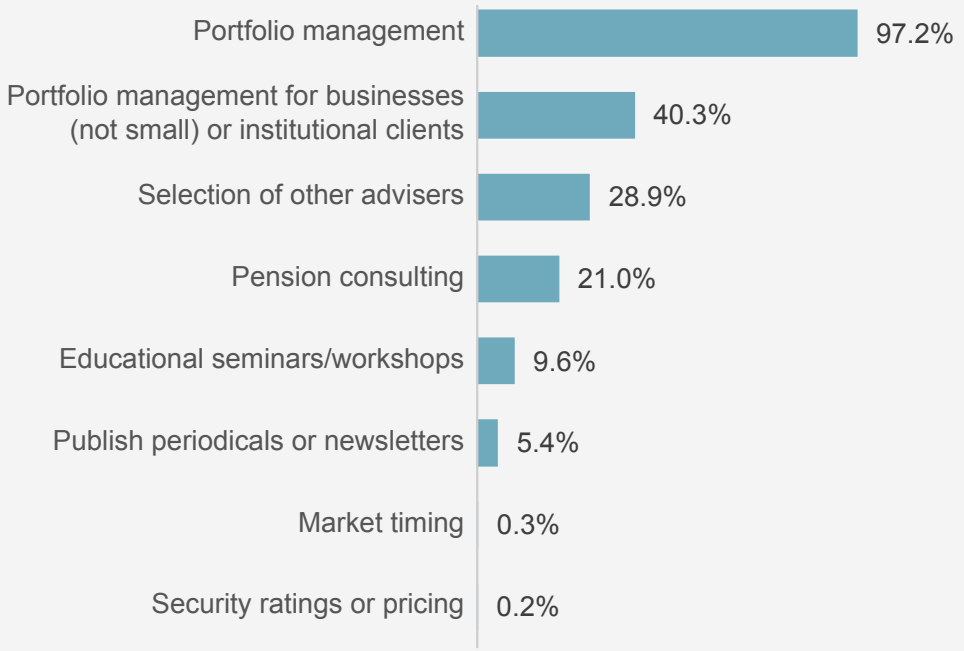
After financial planning, the most common additional services are providing advice on the selection of other advisers and pension consulting services, both of which were offered by over 20% of advisers in 2021.

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

FIGURE 2B

Many Advisers Go Beyond Portfolio Management

Percentage of Advisers Offering Service, 2021



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

A Broad Range of Clients

Investment advisers serve three client segments:

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

In 2021, individuals accounted for the largest number of clients (50.7 million). With regard to assets, pooled funds predominated, with $78.7 trillion in assets, accounting for 61.3% of total assets.

Note that clients not using asset management services are not classified by client type and, therefore, are not included in this discussion.

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

FIGURE 2C

Number of Clients by Client Segment

Thousands, 2021

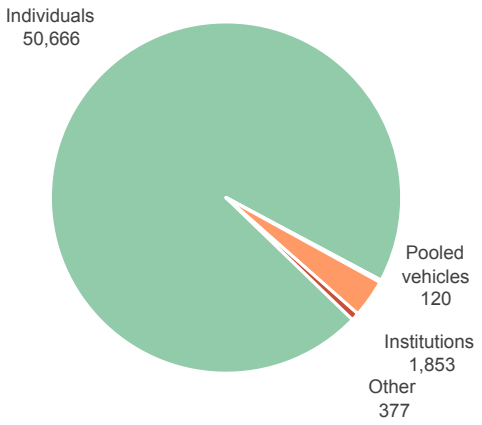
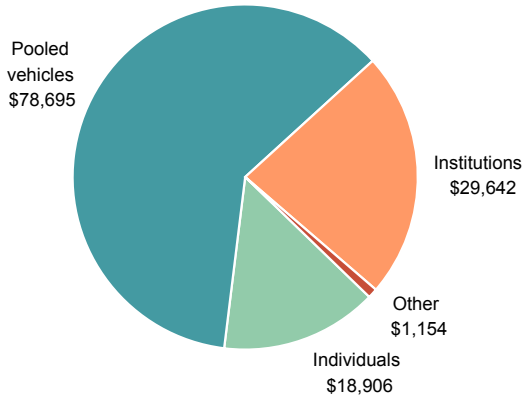


FIGURE 2D

Assets by Client Segment

$ Billions, 2021

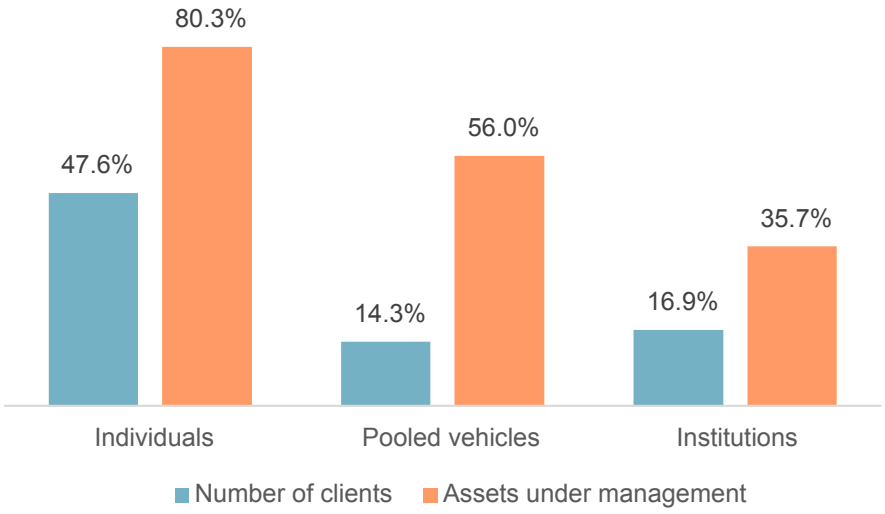


The individual client segment has experienced the strongest growth. Over the past 3 years, the numbers of clients and assets in this segment have grown at an annualized rate of 13.9% and 21.7%, respectively.

FIGURE 2E

Growth in the Individual Client Segment Has Been Especially Strong

Percentage Growth, 3 Years Ended 2021



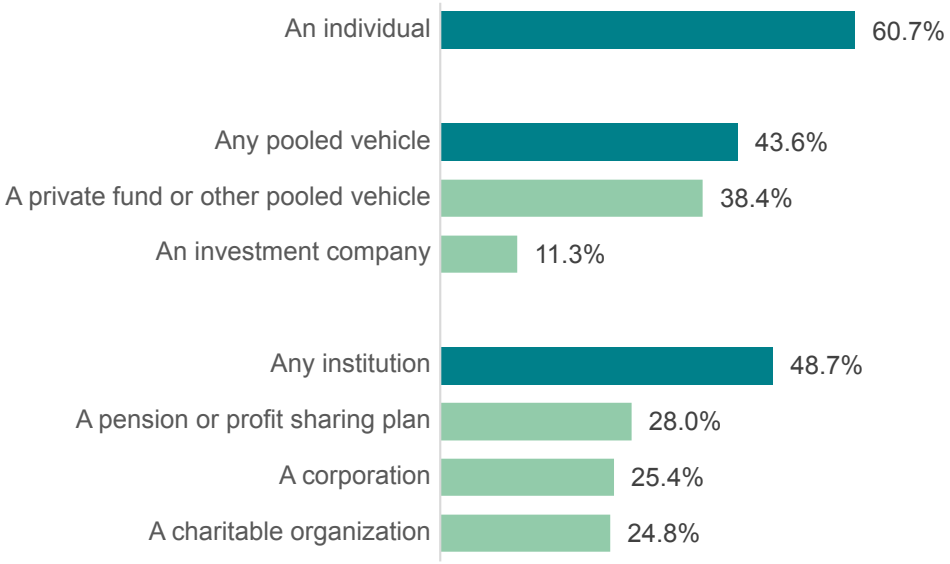
Advisers are most likely to have individual clients. In 2021, 60.7% of advisers served individual clients. Private funds and other pooled vehicles (other than investment companies and business development companies) were the second most common client type, with 38.4% of advisers having clients of that type.

The three most common types of institutional clients are pension and profit sharing plans, charitable organizations, and corporations. Roughly one-quarter of advisers provide services to each of these client types.

FIGURE 2F

Percentage of Advisers that Have at Least One Client Who is . . .

2021



Individuals

In 2021, investment advisers provided asset management services to 50.7 million individual investors.

The bulk of these clients (86.4%) were non-high net worth individuals. Generally, these are individuals with less than $1.1 million in assets under management with an adviser or a net worth of less than $2.2 million (excluding the value of a primary residence). Note that these threshold amounts were adjusted upward in mid-2021, which affected subsequent Form ADV filings.

On the other hand, 62.6% of the assets managed for clients in this segment were from the 13.6% of individual investor clients who were high net worth individuals.

FIGURE 2G

Non-High Net Worth Individuals are the Largest Client Type in Terms of Numbers . . .

Number of Clients, Millions

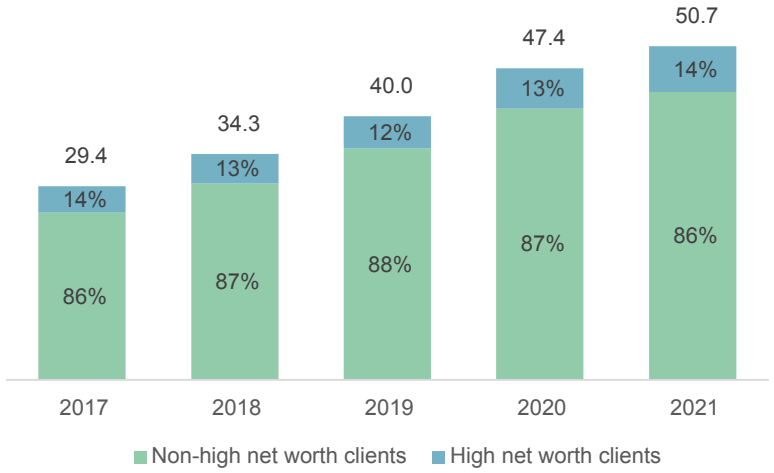
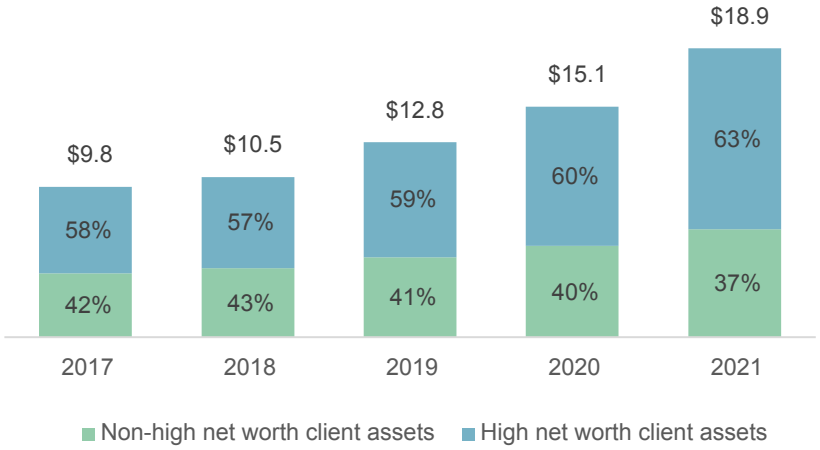


FIGURE 2H

. . . While High Net Worth Individuals Account for the Majority of Assets

Assets, $ Trillions



An Increasingly Digital Industry

Like all other businesses, the investment adviser industry is tapping into the power of technology to better serve clients.

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

Digital advice has been particularly disruptive in providing advice to individual investors. The two largest firms serving non-high net worth individuals (as measured by number of clients) were both founded within the past 10 years and provide Internet-only services. Internet-only firms are also leaders in providing investment advice outside the context of a traditional asset management relationship.

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

In 2021, 232 firms filed Form ADV using the Internet adviser exemption. These firms are small:

- They managed a total of $17.4 billion in assets, and 124 managed no assets at all.
- The average Internet adviser had a staff of just 9 non-clerical personnel.

Importantly, the presence of digital advice in the industry goes much beyond these 232 firms. Successful digital platforms often stop using the Internet adviser exemption, since they are eligible to register with the SEC based on their assets under management. In addition, existing firms with traditional distribution approaches are incorporating digital advice platforms into their services.

Pooled Funds

The pooled fund segment includes:

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

In 2021, investment advisers provided money management services to 119,639 pooled funds with $78.7 trillion in assets. Private funds and other pooled funds were the most common client type in this segment, while investment companies accounted for over half of assets.

FIGURE 2I

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

Number of Clients

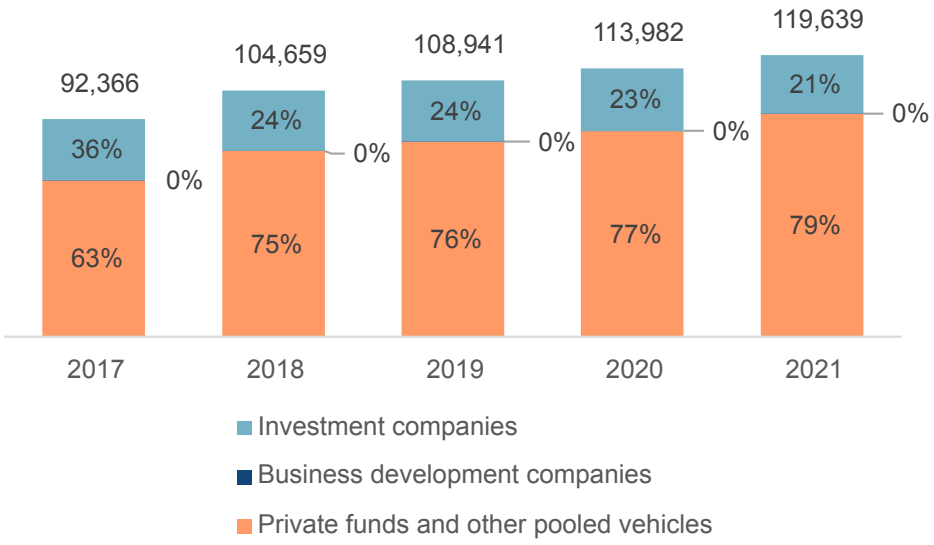
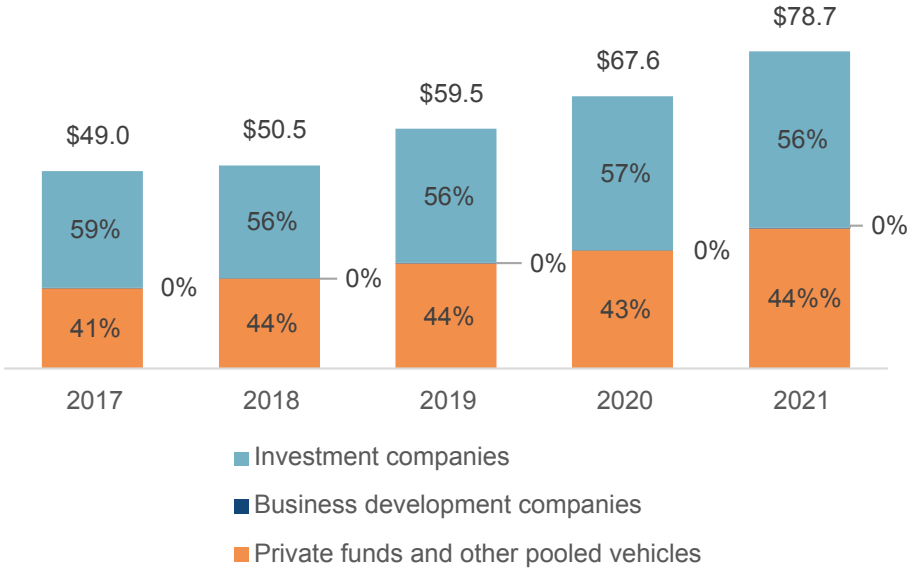


FIGURE 2J

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

Assets, $ Trillions



Communicating with Clients

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

The number of advisers using multiple websites or social media platforms rose to 56.1% of advisers, from 43.3% in 2017. A small number of firms (164 or 1.2%) have 20 or more websites, with one firm reporting 1,095 sites. Firms that allow their investment adviser representatives to operate their own website report large numbers of sites.

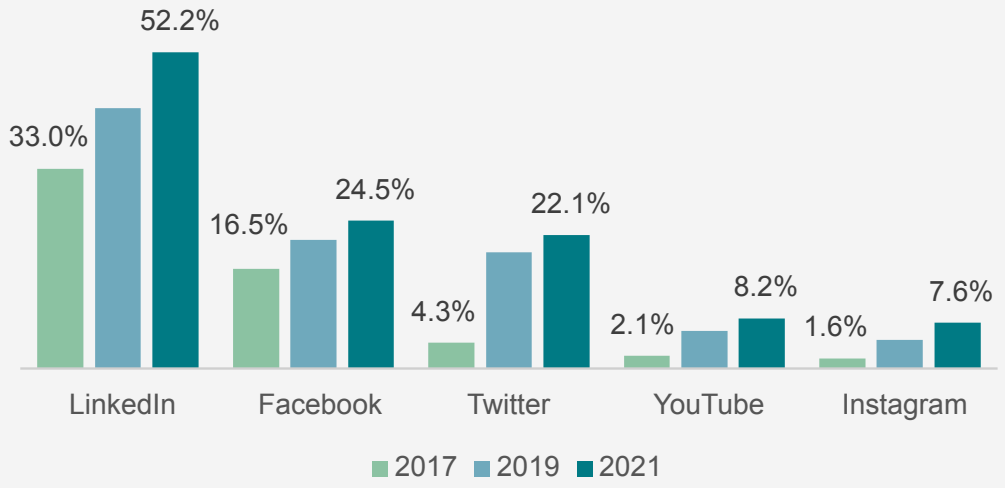
Social media use continued to increase in 2021. Among the social media platforms, LinkedIn was most likely to be used by advisers, followed by Facebook and Twitter.

Only 9.5% of advisers reported no online presence in 2021.

FIGURE 2K

Advisers' Social Media Use Continues to Climb

Percentage of Advisers with Presence on Platform



Note: Most commonly used social media platforms. Excludes Vimeo and SoundCloud.

Institutions

The institutional segment includes:

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

Half of the clients in this segment are other investment advisers. In these relationships, one investment adviser directs client assets to be managed by another investment adviser, typically as a sub-adviser or through a managed account or model portfolio arrangement. More than 90% of the investment adviser clients are clients of a single adviser that provides services to retirement plans, including model portfolios and asset allocation services.

The number of other investment adviser clients declined in 2021 after 2 years of strong growth; the decline is largely the result of the acquisition of another large provider of model portfolios.

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

The second most common client type in the institutional segment is pension and profit sharing plans, accounting for almost one-quarter of clients. The number of pension and profit sharing clients declined in 2021; the reason for the decline is not clear, though it may be related to corporate realignments.

Corporations and other businesses ranked third in the institutional segment, with almost one-fifth of clients in the segment.

Assets are more evenly distributed among the institutional client types. Pension/profit sharing plans and insurance companies each account for over one-quarter of assets, with states/municipalities and corporations/other businesses combined making up another one-quarter.

With regard to assets, sovereign wealth and other foreign official accounts are the largest institutional clients, with average assets of approximately $1 billion. Insurance companies are second-largest, with average assets of roughly $570 million.

FIGURE 2L

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

Number of Clients, Thousands, 2021

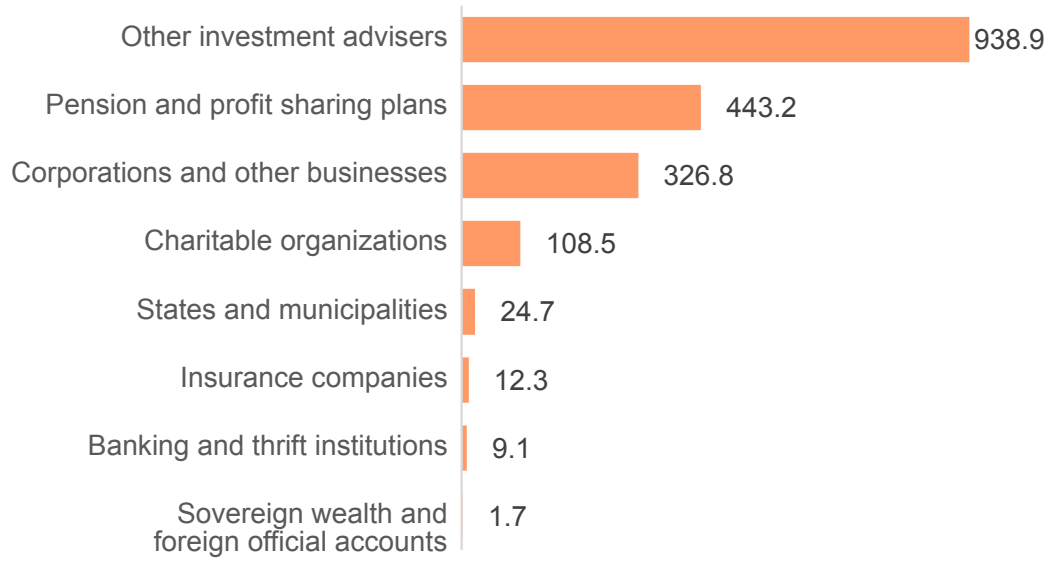
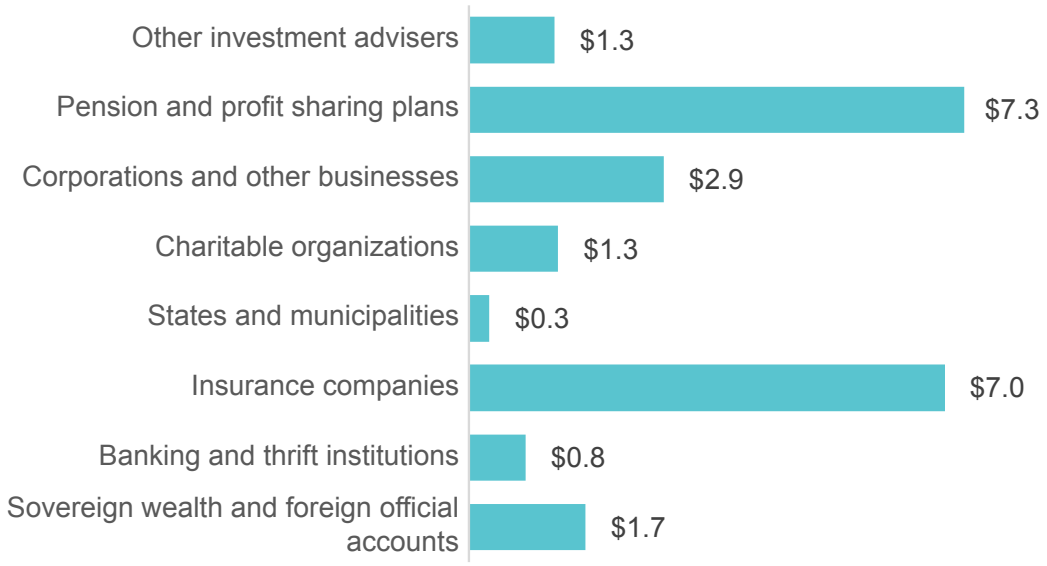


FIGURE 2M

. . . As Are Institutional Client Assets

Assets, $ Trillions, 2021



A Global Industry

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

In 2021, 33.5% of advisers reported providing money management services to at least one non-U.S. client, a percentage that has decreased slightly in each of the past 3 years. Assets from non-U.S. clients were $33.7 trillion or approximately one-quarter of total assets.

For advisers with non-U.S. clients, on average, 39.4% of clients and 36.6% of assets were sourced outside the United States in 2021. Only 518 advisers (3.5%) served non-U.S. clients exclusively.

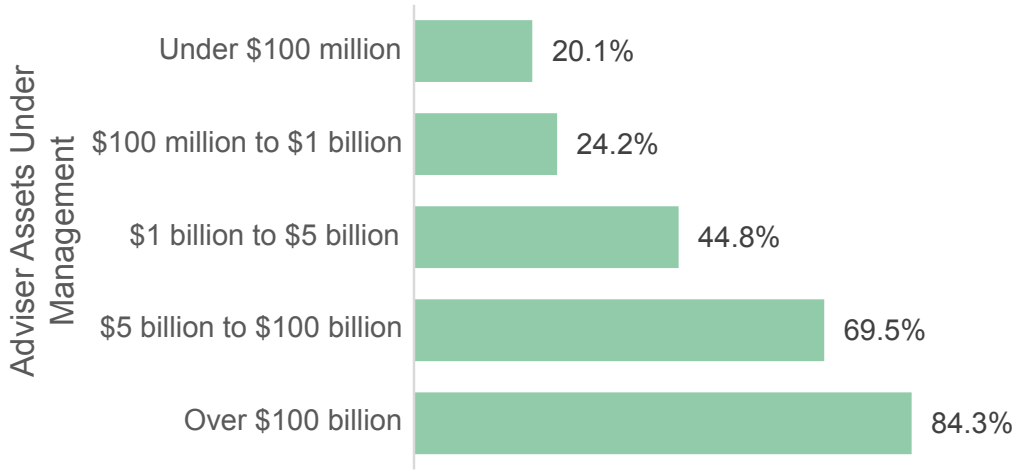
Non-U.S. clients are important to firms of all sizes. While larger firms are most likely to have non-U.S. clients, a significant proportion of even the smallest firms have a global reach.

In addition, 5.8% of advisers are domiciled outside the United States. (See Table 3C in Part 3 | Employees for more information.)

FIGURE 2N

Advisers of All Sizes Have Non-U.S. Clients

Percentage of Advisers with Non-U.S. Clients, 2021



A Broad Range of Firms

The investment adviser industry has a broad range of firms to serve this broad range of clients. The profile of the typical investment adviser varies significantly with its client focus.

For example, advisers that manage money primarily for individuals are likely to be small businesses with, on average, 8 employees, 2 offices, and under $400 million in assets under management.

On the other hand, advisers serving all 3 client segments tend to be larger, with an average of 286 employees, 21 offices, and $53.3 billion in assets under management.

In 2021, over 85% of advisers fell into one of the following 4 categories in terms of client focus:

- Individuals, Pooled Vehicles, and Institutions
- Individuals and Institutions
- Pooled Vehicles Only
- Individuals Only

TABLE 2A

The Typical Adviser Profile Varies with Client Focus

2021

Individuals, Pooled Vehicles, and Institutions

(Average for 628 firms)

- $53.3 billion assets under management
- 286 employees
- 21 offices
- 20,391 individual clients
- 34 pooled fund clients
- 677 institutional clients

Individuals and Institutions

(Average for 2,420 firms)

- $4.9 billion assets under management
- 139 employees
- 38 offices
- 9,229 individual clients
- 573 institutional clients

Pooled Vehicles Only

(Average for 4,937 firms)

- $7.9 billion assets under management
- 42 employees
- 2 offices
- 3 individual clients
- 12 pooled fund clients
- 1 institutional client

Individuals Only

(Average for 5,002 firms)

- $367 million assets under management
- 8 employees
- 2 offices
- 2,926 individual clients
- 2 institutional clients

Notes: Criteria for categorization:

- Individuals, Pooled Vehicles, and Institutions: Assets in all 3 segments. More than 100 individual and 10 institutional clients.
- Individuals and Institutions: Assets for individual and institutional clients. No pooled vehicle assets. More than 10 institutional clients.
- Pooled Vehicles. Assets for pooled vehicle clients. No more than 100 individual and 10 institutional clients.
- Individuals. Assets for individual clients. No pooled vehicle assets. No more than 10 institutional clients.

In 2021, 87.7% of advisers were included in 1 of these 4 categories.

Is There a "Typical" Adviser?

The wide range in adviser size and client focus makes it difficult to describe a "typical" adviser.

However:

67% of advisers manage **$1 billion or less** in assets with **50 or fewer** non-clerical employees.

The average adviser in this group manages assets for:

319 individual clients,

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

10 institutional clients.

On average, this group of advisers has:

7 employees and

$306 million in assets under management.

3 Employees

Employment in the industry reached a record high in 2021.

In 2021, SEC-registered investment advisers employed

928,505

non-clerical staff.

88.1%

of firms were small businesses employing 50 or fewer people.

IN BRIEF

In 2021, employment in the investment adviser industry reached a record high of 928,505 non-clerical staff. Employment growth has been strongest in firms with more than $100 billion in assets, though a significant portion of the growth of employment in this category is due to firms moving into the category as their assets increased. Firms with $5 billion to $100 billion in assets (which make up only 10.7% of the number of advisers) contributed half of new job growth.

Most investment advisers are small businesses, with 50 or fewer employees and 1 or 2 offices. Relative to their assets under management, small advisers account for a disproportionately high percentage of industry employment.

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

Growth in the number of investment advisers has been strongest in the South and the West. In the pandemic years, growth was stronger in states that have not been traditional financial centers.

A Growing Employer

In 2021, employment in the investment adviser industry reached a record high. The industry added 48,478 jobs (an increase of 5.5%) to reach total non-clerical employment of 928,505.

This was the fifth consecutive year of increases in the number of jobs in the industry. Job gains since 2012 have averaged 3.1% annually.

Over half of employees were engaged in performing investment advisory functions.

A significant proportion were licensed with regulatory authorities, though the growth in the number of these employees lagged the overall growth in employment in 2021. The number of registered representatives of a broker-dealer declined slightly in 2021 (-0.3%), while the number of licensed insurance agents rose only 1.5%. Growth in the number of investment adviser representatives was more robust, at 4.6%, but was still lower than the overall job gain, even with new registration requirements in the state of New York in 2021.

For detail, see Data Table 3A (available online).

FIGURE 3A

The Number of Non-Clerical Employees Reached a Record High in 2021

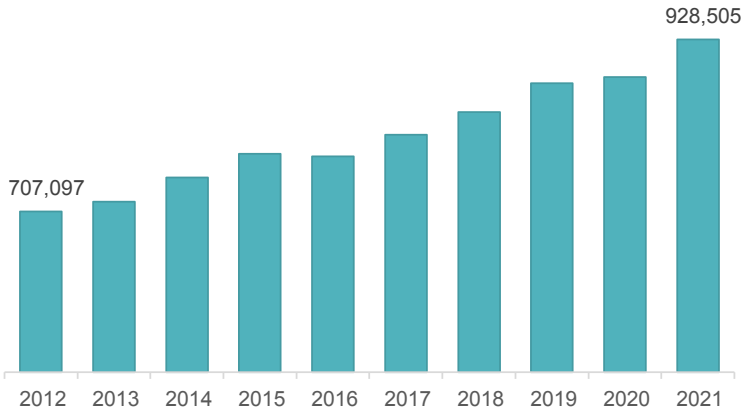
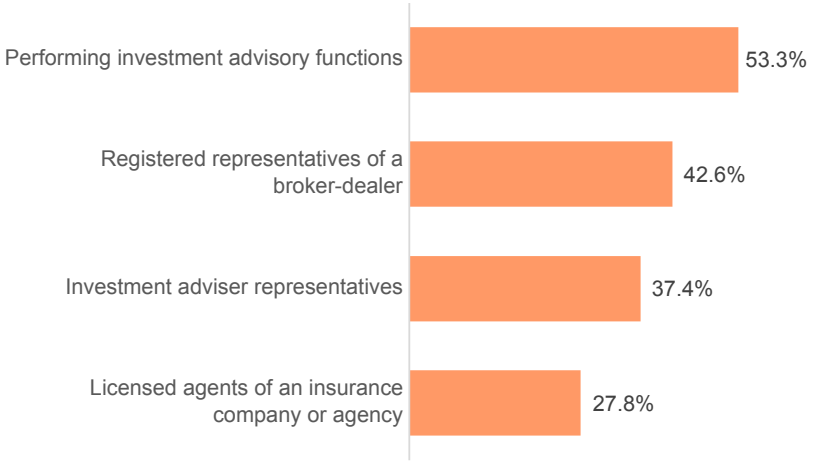


FIGURE 3B

Percentage of Non-Clerical Employees Who Are . . .

2021



An Industry of Small Businesses

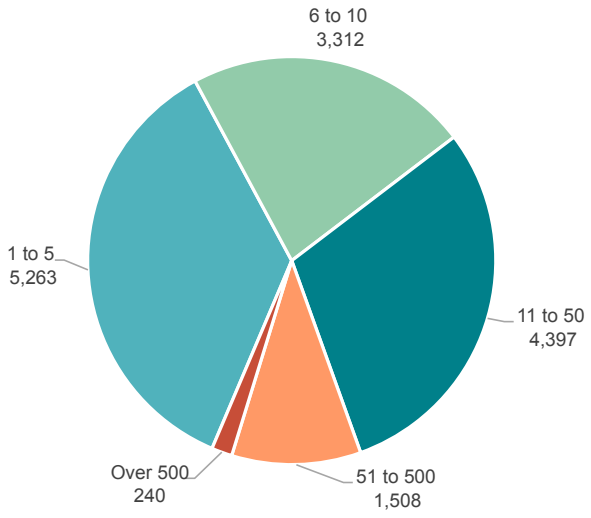
Most SEC-registered advisers are small businesses, employing 50 or fewer people (88.1% in 2021). Only 1.6% had a workforce of over 500 people. The median investment adviser employed 8 people.

For detail, see Data Table 3B (available online).

FIGURE 3C

Most Advisers are Small Businesses

Number of Advisers by Number of Non-Clerical Employees, 2021



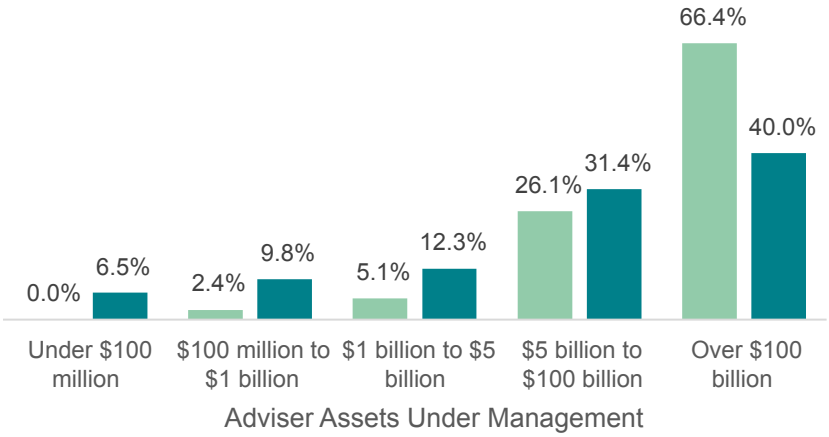
Note: Excludes advisers reporting zero employees.

Advisers with less than $100 billion in assets under management accounted for a disproportionately high percentage of industry employment relative to their assets under management. For example, advisers with $100 million to $1 billion in assets under management (57.0% of firms) managed 2.4% of total industry assets but accounted for 9.8% of employment.

FIGURE 3D

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

2021

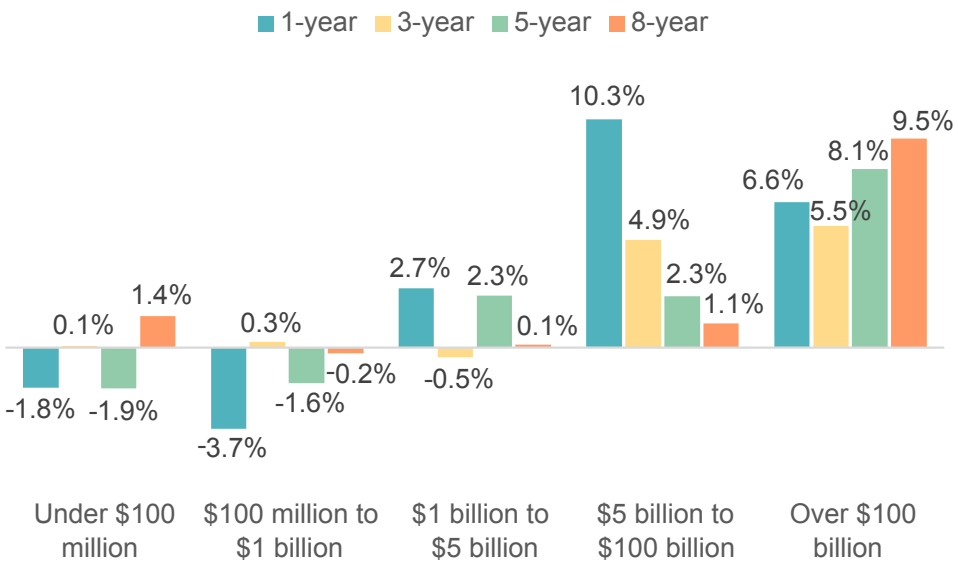


Growth in employment has been strongest at the largest firms. Over the past 8 years, non-clerical employment rose 9.5% annually at firms with over $100 billion in assets under management.

FIGURE 3E

Employment Growth was Strongest at the Largest Firms . . .

Annualized Change in Number of Non-Clerical Employees, Periods Ended 2021



However, a breakdown of the changes in employment shows that most of the new jobs in the industry were at firms with less than $5 billion in assets under management.

Figure 3F breaks down changes in employment in each size category into “same adviser” change and “category” change. “Same adviser” change is the net change in employment at advisers that were in the same size category in the previous year. “Category” change is the net change in employment in that category due to advisers moving in or out of the category.

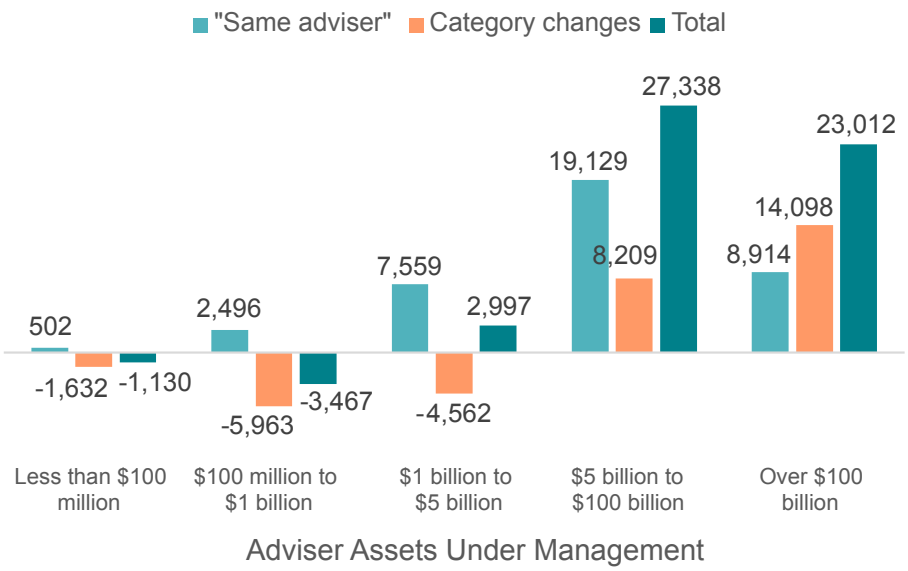
This analysis shows that roughly one-third of the increase in the number of jobs at employers with over $100 billion in assets under management (8,913 of 23,012 jobs added) were from employers in that size category in the previous report. The remaining job increase resulted from advisers moving into the largest size category, most likely as a result of an increase in assets under management.

By contrast, advisers with $5 billion to $100 billion added a total of 27,338 jobs, composed of 19,129 new jobs, an addition of 30,075 jobs from firms moving into the category, and a loss of -21,866 jobs from firms moving out of the category (for a net addition of 8,209 jobs from category changes).

FIGURE 3F

But "Same Adviser" Employment Growth was Strongest at Smaller Firms

Breakdown of Change in the Number of Non-Clerical Employees, 2021



Overall, the data highlights that most advisers are quite small, though there are a few very large advisers. For example, the median adviser has 8 employees, and the average adviser has 63 employees, but the largest adviser (based on reported staff count) has 34,906 employees. In fact, 90% of advisers have no more than 62 employees. Table 3A illustrates the wide variety of advisers looking at several measures of size.

TABLE 3A

Most Advisers are Small Businesses

2021

	Median	Top Quartile	Top Decile	Average	Range
Number of employees	8	20	62	63	0 to 34,906
Assets under management	$412.3 million	$1.5 billion	$6.6 billion	$8.7 billion	$0 to $7.8 trillion
Number of clients:					
Individuals	64	307	867	3,422	0 to 6.8 million
Pooled vehicles	0	4	14	8	0 to 2,372
Institutions	1	2	4	8	1 to 862,457
Number of offices	1	2	4	8	1 to 14,763

A Wide Geographic Scope

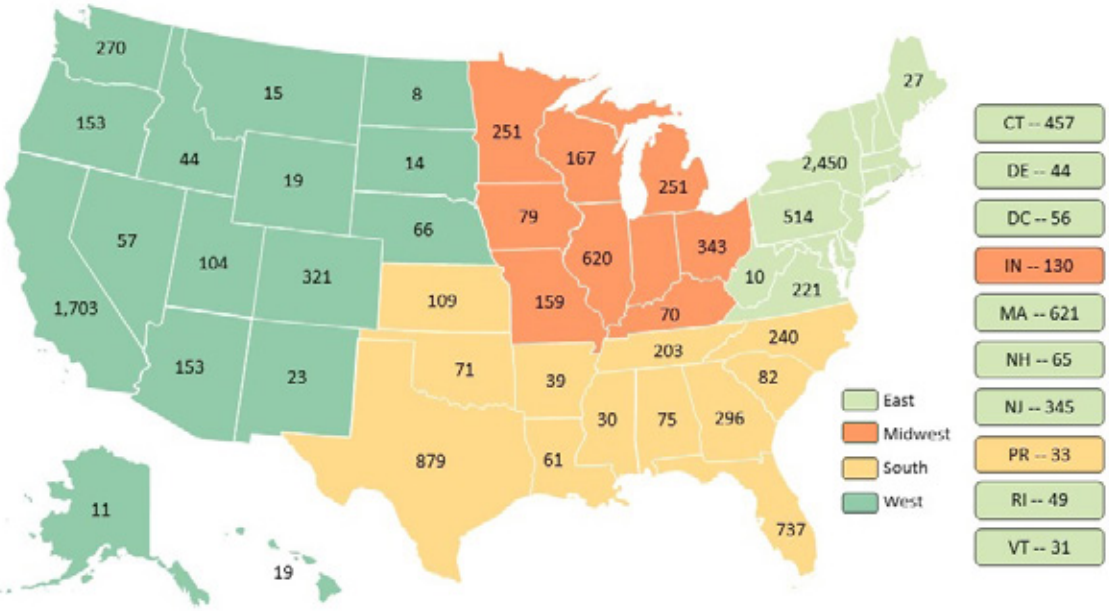
Asset management is a Main Street profession. As a result, SEC-registered advisers have their principal offices in all 50 states, the District of Columbia and Puerto Rico.

For detail, see Data Table 3C (available online).

FIGURE 3G

A National Industry

Number of Investment Advisers with Principal Office in State, 2021

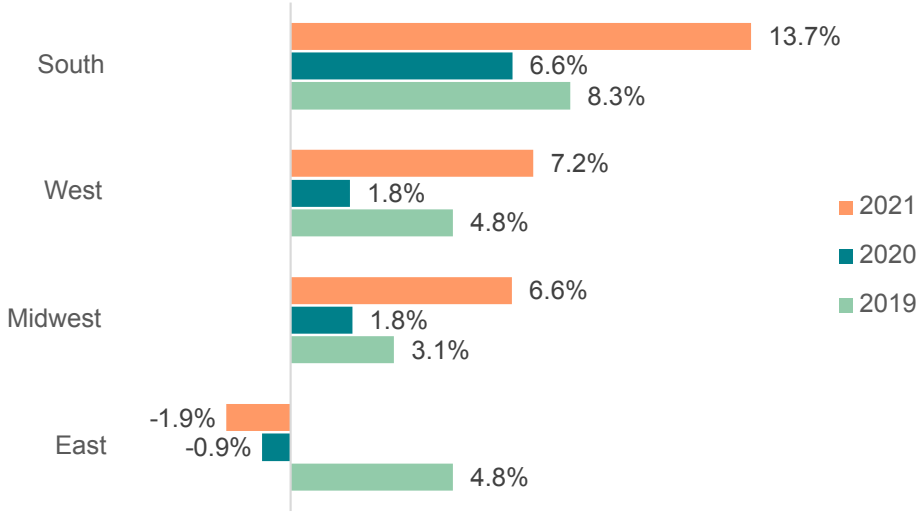


Reflecting trends in the U.S. population, growth in the number of advisers has been strongest in the South.*

FIGURE 3H

Growth Has Been Strongest in the Sunbelt

Change in Number of Advisers



*Please note that a different methodology was used to assign advisers to regions in the *2021 Investment Adviser Industry Snapshot.*

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

By contrast, over the past 2 years, the number of advisers in New York fell, while growth in other traditional financial center states was modest.

The rapid transition to a work-from-home environment during the pandemic clearly facilitated the shift away from traditional financial centers. At this point, it is unclear whether the shift is largely a function of the pandemic or whether the pandemic merely accelerated an existing trend.

FIGURE 3I

During the Pandemic Years, Growth Shifted Away from Traditional Financial Centers

Change in Number of Advisers, 2021 versus 2019, States with Largest Number of Advisers

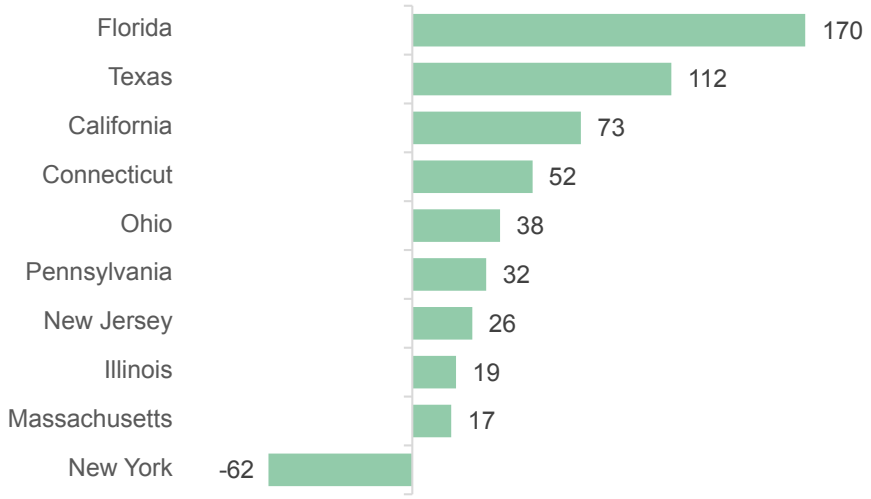


TABLE 3B

Number of Advisers in Top 10 States

State	2018	2019	2020	2021
New York	2,449	2,512	2,421	2,450
California	1,585	1,630	1,631	1,703
Texas	713	767	799	879
Florida	509	567	636	737
Massachusetts	592	604	602	621
Illinois	586	601	589	620
Pennsylvania	461	482	498	514
Connecticut	419	405	421	457
New Jersey	328	319	322	345
Ohio	305	305	316	343

While most advisers are based in the United States, 6.3% of SEC-registered advisers are located in other countries.

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

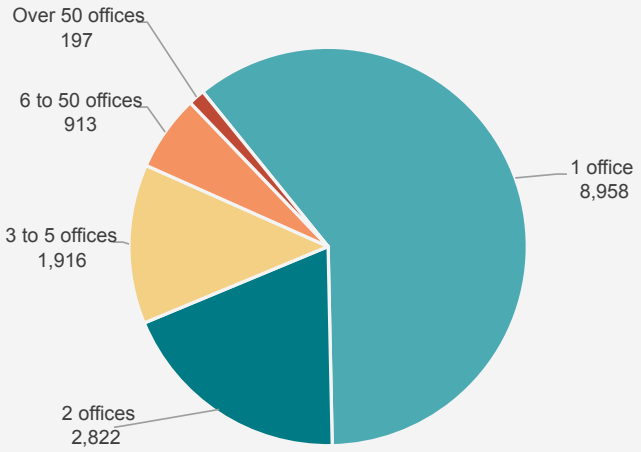
Country	2018	2019	2020	2021
United Kingdom	287	270	282	293
Canada	121	127	131	134
Hong Kong	76	80	79	79
Switzerland	71	64	62	62
Singapore	39	42	41	40
Australia	30	34	37	36
China	36	35	31	22
Japan	18	21	22	21
Ireland	14	14	16	15
India	9	12	11	13

Branch Offices

The majority of investment advisers operate from a single office. In 2021, 11,780 advisers (79.6%) had only 1 or 2 offices.

Only 7.5% of advisers had 6 or more offices, with just 1.3% having over 50 offices.

FIGURE 3J
The Majority of Investment Advisers Operate from a Single Office
Number of Advisers by Number of Offices, 2021



However, in a trend that accelerated with the pandemic, more advisers are reporting offices located in private residences. Note that, under current SEC guidance, if employees are working remotely, the remote locations generally do not need to be reported as offices in Form ADV, as long as the firm maintains a physical office.

TABLE 3D
Offices Located in Private Residences

	2018	2019	2020	2021
Principal Offices	486	537	724	880
% of Principal Offices	3.7%	4.0%	5.2%	5.9%
Branch Offices	2,178	2,505	3,002	4,063
% of Branch Offices	10.8%	11.4%	13.1%	16.1%
% of Total Offices	8.0%	8.6%	10.1%	12.3%

Note: Includes 25 largest branch offices only.

4 Compensation

Adviser compensation structures align adviser interests with client interests.

95.5%

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

49.6%

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

IN BRIEF

Almost all SEC-registered advisers (95.5%) offer clients a fee based on a client's assets under management. Advisers generally offer asset-based fees in combination with other fee types, such as fixed fees, performance fees, or hourly fees.

Over the past 10 years, fixed fees and hourly fees have become more common. Advisers that offer financial planning services are likely to charge fixed or hourly fees.

Adviser interest and participation in many client-related transactions has declined over the past 10 years. Advisers are less likely to recommend proprietary products. The percentage of advisers receiving soft dollar research reached a new low in 2021 (37.8% of advisers). Advisers are less likely to be affiliated with a brokerage firm and to engage in transactions involving those affiliated firms.

Alignment with Client Interests

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

Almost all SEC-registered advisers (95.5%) receive compensation in the form of asset-based fees. These fees are structured as a percentage of client assets under management, which increase as the value of client assets increase and decrease as asset values decline.

TABLE 4A

Asset-Based Fees are the Most Common Form of Compensation

Percentage of Advisers Receiving Fee Type, 2021

Fee Type	% of Advisers
Asset-based	95.5%
Fixed	44.8%
Performance	35.9%
Hourly	29.7%
Other	14.0%
Commissions	2.4%
Subscription	1.0%

However, only 17.4% of advisers are compensated through asset-based fees alone. Most advisers offer asset-based fees along with other types of fees, such as fixed fees, performance fees, and hourly charges. Most commonly, over a third of advisers (34.5%) offer a fixed fee and/or an hourly fee (commonly for financial planning services) in addition to an asset-based fee (normally for portfolio management services).

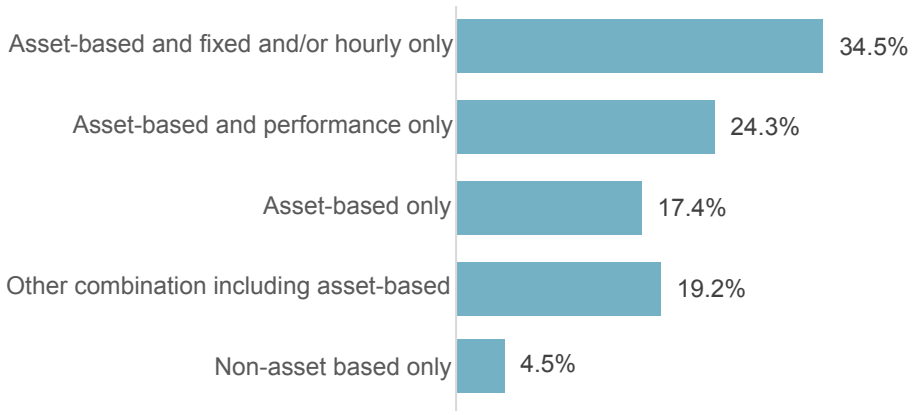
Roughly one-quarter of advisers (24.3%) are compensated through an asset-based fee and a performance fee only. This compensation arrangement is particularly common in private funds; in 2021, 59.5% of advisers managing private funds offered only an asset-based fee and a performance fee.

Only 4.5% of advisers do not charge an asset-based fee. Over half of these advisers include a fixed fee or hourly fee as one of their fee offerings.

FIGURE 4A

Most Advisers Offer Asset-Based Fees in Combination with Other Fees

Percentage of Advisers Offering Fee Type, 2021



Compensation arrangements for the industry overall shifted significantly in 2011, when advisers to private funds were first required to register with the SEC. Most notably, the percentage of advisers charging performance fees increased significantly.

Advisers to private funds are highly likely to charge performance fees, which increase when returns on client assets are better and decrease when returns are worse. In 2021, over 85% of advisers to private funds received compensation in the form of performance fees.*

However, since 2011, performance fees have become less common overall. While advisers to private funds are slightly more likely to charge these fees, other advisers are less likely to charge them.

Over the past 10 years (from 2011 to 2021), commissions have also become less common (-3.8%).

By contrast, in the same 10-year period, fixed fees and hourly fees have become more common (+3.9% and +2.0%, respectively). Approximately half of advisers (49.6%) offer either a fixed fee or an hourly fee (or both).

Fixed and hourly fees are commonly used in financial planning; over 85% of the advisers offering financial planning services offer either a fixed or an hourly fee (or both).

For detail, see Data Table 4A (available online).

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

TABLE 4B
Compensation Arrangements Have Evolved
Change in Percentage of Advisers Charging Fee Type

Fee Type	2000 to 2011	2012 to 2021	21 Years
Interest in Investments Recommended to Clients			
Performance	+18.5%	-3.0%	+15.5%
Fixed	+8.1%	+3.9%	+11.9%
Asset-Based	+9.2%	+0.5%	+9.6%
Other	+6.4%	+0.8%	+7.2%
Hourly	+0.5%	+2.0%	+2.6%
Subscription	-0.6%	-0.3%	-0.8%
Commissions	-4.8%	-3.8%	-8.5%

Interest and Participation in Client Transactions

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

These conflicts fall into four broad categories:

- Interests in investments recommended to clients,
- Investments in recommended securities,
- Use of client commissions to purchase soft dollar research, and
- Trading authority and practices.

For detail, see Data Table 4B (available online).

TABLE 4C
Interest and Participation in Trading Transactions
Percentage of Advisers

	2011	2021
Interest in Investments Recommended to Clients		
Recommend proprietary product	27.4%	20.2%
Recommend securities underwritten by related broker	25.7%	16.8%
Sales interest in recommended investments	11.6%	8.3%
Investments in Recommended Securities		
Buy or sell securities recommended to clients	75.6%	77.4%
Soft Dollar Research		
Receive soft dollar research	46.3%	37.8%

Note: Data on interest and participation in client-related transactions was not available through Form ADV Part 1A prior to 2011.

Buying or selling securities recommended to clients is the most common interest or participation in non-trading transactions. In 2021, 77.4% of advisers reported that their firm, their employees, or other related parties engage in this practice, with the percentage of advisers engaging in this practice reaching a new high.

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

Use of soft dollar research was also common in 2021, with 37.8% of advisers using client commissions to purchase research or brokerage services, generally relying on the "safe harbor" under Section 28(e) of the Exchange Act. However, adviser use of soft dollar research has been declining, reaching a 10-year low in 2021.

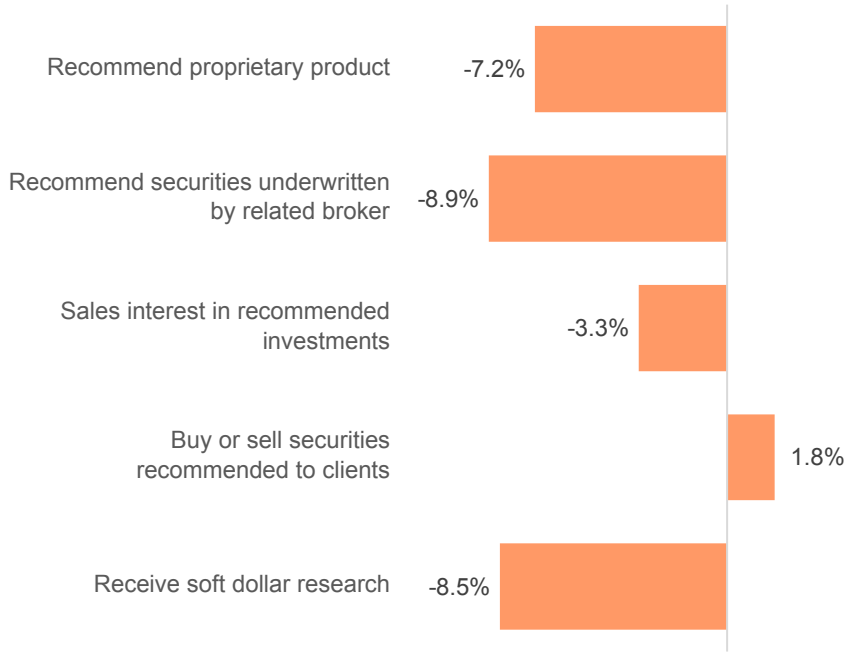
Advisers have been reducing their use of soft dollar research. Fewer soft dollars are available because equity commission rates have fallen (to zero in some instances). In addition, regulatory action in Europe has made the use of soft dollars more cumbersome for advisers with European clients. Note that over 90% of advisers receiving soft dollar research in 2021 report that the research is eligible for the "safe harbor" under Section 28(e).

Adviser interest and participation in other client transactions have also been declining.

FIGURE 4B

Adviser Interest and Participation in Client Transactions is Declining

Change in Percentage of Advisers, 2021 versus 2011



Note: Excludes trading-related transactions. Data on interest and participation in client-related transactions was not available through Form ADV Part 1A prior to 2011.

The percentage of advisers that recommend securities underwritten by a related brokerage firm declined by -8.9% from 2011 to 2021. This decline at least partly reflects a decrease in the percentage of advisers affiliated with brokerage firms. In 2021, only 16.2% of advisers were affiliated with brokers, down from 22.5% in 2011.

Advisers have also become less likely to recommend proprietary products (meaning investment vehicles that are owned or managed by the adviser or an affiliate and therefore generate revenue for the adviser or an affiliate). The percentage of advisers offering these products has steadily declined to 20.2% in 2021 from 27.4% in 2011, another trend that is at least partly driven by the decline in the proportion of advisers that are affiliated with a brokerage firm, but also may be driven by increased regulatory focus on the sale of proprietary products. In absolute terms, the number of advisers recommending proprietary products has been fairly flat over the past 10 years (2,993 advisers in 2021, compared to 2,877 in 2011).

Similarly, the percentage of advisers with a sales interest in recommended investments declined by -3.3% over the 10-year period.

TABLE 4D

Interest and Participation in Trading Transactions

Percentage of Advisers

	2011	2021
Engage in principal transactions with clients	8.7%	7.8%
Use or recommend affiliated broker for client transactions	10.8%	6.9%
Execute agency cross transactions for clients	4.9%	2.6%
Discretionary authority to determine client securities to be bought and sold	91.9%	93.8%
Discretionary authority to determine amount of client securities to be bought and sold	91.8%	93.7%
Determine or recommend broker for client transactions	90.5%	91.6%
Discretionary authority to determine commission rate on client transactions*	88.6%	79.9%

*As a percentage of advisers determining broker for client transactions.
Note: Data on interest and participation in client-related transactions was not available through Form ADV Part 1A prior to 2011.

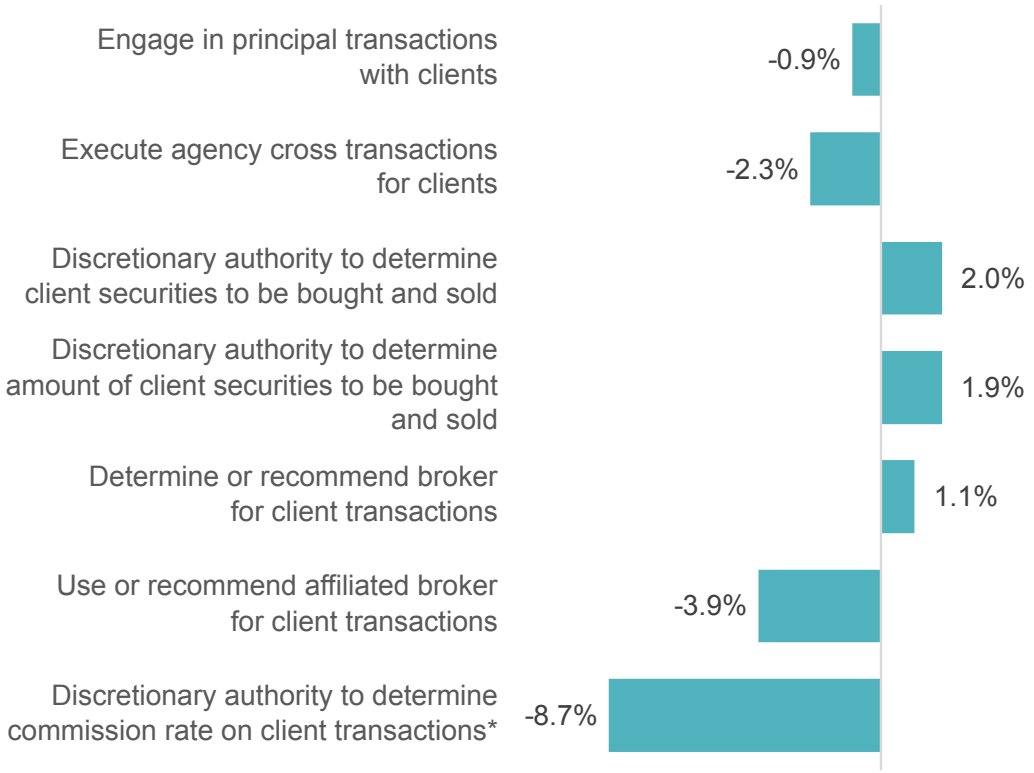
Advisers continue to play an important role in arranging purchase and sales transactions in their clients' portfolios. Arranging transactions is part of the portfolio management services that most investment advisers provide.

In 2021, over 90% of advisers had discretionary authority to determine which client securities to buy and sell. Over 90% either determined or recommended the brokerage firm to be used to execute those buys and sells, and, of those firms, approximately 80% had the discretionary authority to determine the commission rate to be paid on those transactions.

FIGURE 4C

Adviser Interest and Participation in Trading Transactions Has Been Generally Stable

Change in Percentage of Advisers, 2021 versus 2011



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

Adviser involvement in client trading has remained relatively stable over the past 10 years. The number of advisers using or recommending affiliated brokerage firms has declined, reflecting the decline in the share of advisers with affiliated brokerage firms.

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

5 Investment Insights

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

73.5%

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

In 2021, there were

50,081

private funds.

IN BRIEF

In 2021, 73.5% of advisers managed separately managed accounts for individuals and institutions. Smaller advisers are less likely to invest in bonds in these accounts and more likely to invest in equities and registered funds. Larger advisers are more likely to use derivatives and borrowings in these accounts.

Growth in wrap fee program assets has been strong. Annual growth over the three-year period ended in 2021 was 17.7%.

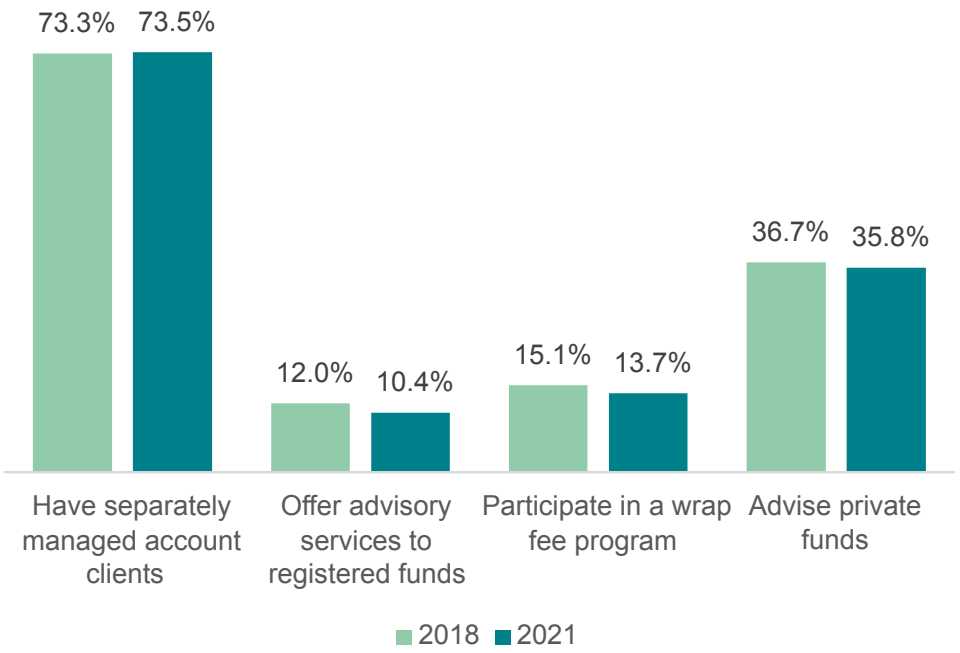
In 2021, 35.8% of advisers managed private funds with $20.8 trillion in total assets. Growth in the number of private funds accelerated in 2021. Hedge funds and private equity funds are the most common types of private funds.

Compared with 3 years previously, advisers were somewhat more likely to have separately managed accounts. By contrast, advisers in 2021 were somewhat less likely to offer advisory services to registered funds, participate in a wrap fee program, or advise private funds.

FIGURE 5A

Advisers are Most Likely to Have Separately Managed Accounts

Percentage of Advisers



Separately Managed Accounts (SMAs)

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

In 2021, 10,887 advisers managed SMA assets (73.5% of all advisers). For comparison, 9,484 advisers (73.3% of all advisers) managed SMA assets in 2018.

The investment approach for separately managed accounts differs significantly between larger and smaller advisers. In 2021, there were 605 advisers managing at least $10 billion in SMA assets (4.1% of all advisers) and 10,282 advisers managing less than $10 billion in SMA assets (69.4% of all advisers).

Larger and smaller advisers had different approaches to investing portfolios. Compared to advisers with at least $10 billion in SMA assets, in 2021, smaller advisers (with less than $10 billion in SMA assets) were more likely to:

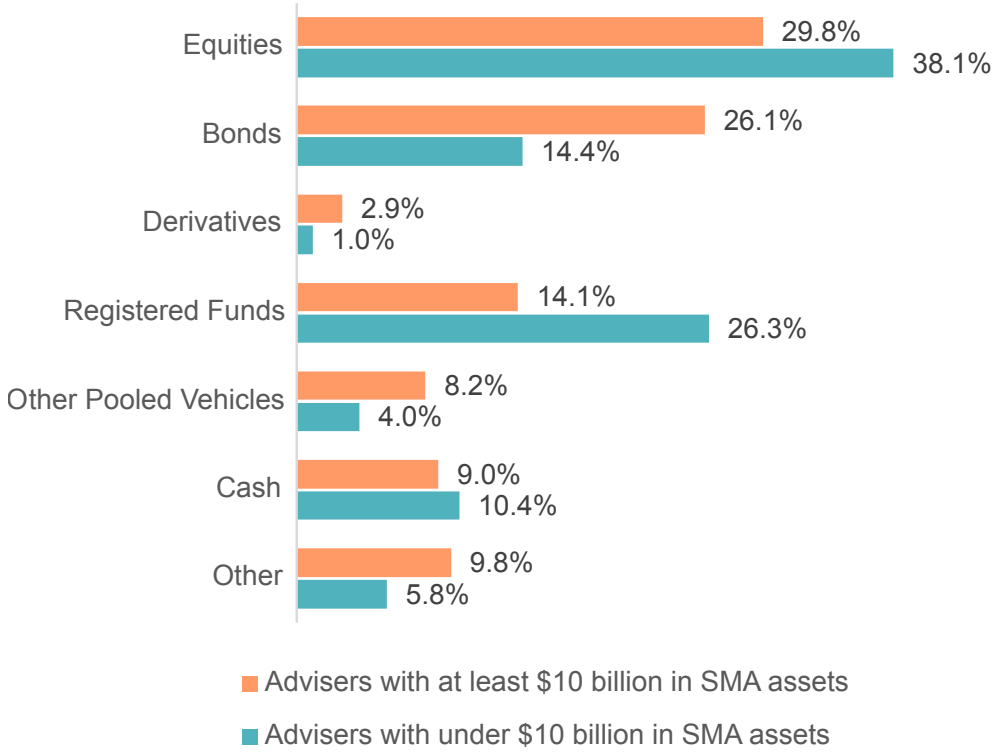
- Use registered funds, including open-end mutual funds and exchange-traded funds (ETFs), more extensively. In 2021, 30.3% of smaller advisers invested more than half of client assets in registered funds, compared to 14.7% of larger advisers.
- Have a lower exposure to bonds. The difference between larger and smaller advisers is largest in corporate bonds, but smaller advisers have lower weightings in all bond categories.
- Invest more heavily in listed equities.

For detail, see Data Tables 5A and 5B (available online).

FIGURE 5B

Larger and Smaller SMA Advisers Have Different Approaches to Investing Portfolios

Estimated Asset Allocation, 2021



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

Advisers report derivatives use in SMAs as gross notional exposure (GNE). While gross notional exposure is a broad measure of the scale of an account's derivatives activity, it does not provide detail on the way that derivatives are used in a separately managed account (such as for hedging), nor is it a measure of risk. Given the limitations of the derivatives data reported in Form ADV, it is difficult to draw specific conclusions about derivatives use in SMAs.

In 2021, 2,070 advisers used derivatives in separately managed accounts (19.0% of advisers with SMA assets, in line with the previous year).

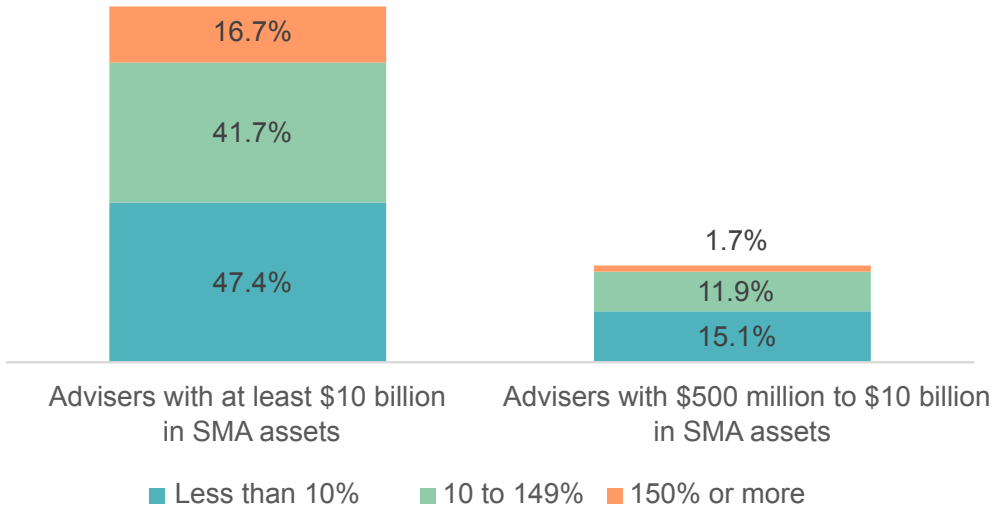
Advisers with more than $10 billion in SMA assets are more likely than advisers with SMA assets under $10 billion to use derivatives in separately managed accounts. They are most likely to use foreign exchange derivatives, equity derivatives, and interest rate derivatives in a gross notional exposure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

For detail, see Data Table 5C (available online).

FIGURE 5C

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

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2021



Note: Percentages add to more than 100% because advisers may report in multiple gross notional exposure ranges. Fiscal year-end data.

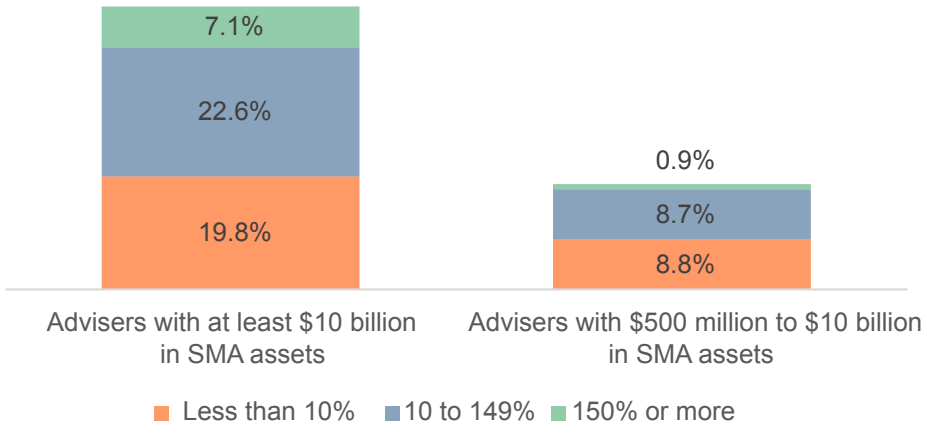
Advisers managing more than $10 billion in SMA assets are also more likely to engage in borrowing transactions on behalf of separately managed account clients. Note that advisers report borrowings in SMAs within very broad ranges. Given the limitations of the data, it is difficult to draw more specific conclusions about borrowings in SMAs.

For detail, see Data Table 5D (available online).

FIGURE 5D

. . . And They are More Likely to Use Borrowings

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2021



Note: Advisers may report in multiple gross notional exposure ranges. Fiscal year-end data.

Registered Funds

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

In 2021, 1,666 advisers reported that they had registered funds as clients, with 381 advisers having registered fund clients exclusively. The number of advisers with registered fund clients has been largely unchanged since 2017. The number of registered funds has not changed much either (16,150 in 2021 versus 16,821 in 2017, as reported by the Investment Company Institute (ICI))*.

Only 1,541 advisers provide portfolio management services to registered funds. Other advisers provide other types of advisory services to registered funds, such as securities ratings services.

Advisers reported managing approximately $44 trillion in assets for 25,042 registered fund clients. They reported managing registered fund assets in 2,238 funds with a total of 8,111 series.

Note that asset and client numbers are significantly higher than the $34.2 trillion in assets at year-end 2021, again, as reported by the ICI. More than one adviser may manage assets for the same fund, either as a sub-adviser or as part of a fund of funds structure; the ICI data excludes these overlaps from asset totals.

The 25,042 registered fund clients reported in Form ADV are also significantly higher than the 16,150 funds offered to the public at year-end 2021 reported by the ICI. Again, more than one adviser may manage assets for the same fund, and only a portion of these overlaps are reflected in the number of funds in the ICI data. In addition, advisers may report funds as clients when they provide advisory services other than portfolio management, as discussed.

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

The assets in parallel managed accounts were considerably lower than the $77.7 trillion in parallel managed accounts reported in 2020; however, the 2020 figure appears to be in error due to overreporting by an adviser. After adjusting for this error, assets in parallel managed accounts increased by roughly 11% in 2021.

Wrap Fee Programs

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

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

In 2021, the number of advisers participating in wrap fee programs (as a sponsor, portfolio manager, or both) rose modestly after being flat in 2020, while the percentage of advisers participating in these programs declined for the third year in a row. The decline may be attributable to the increasing use of unified managed accounts (UMAs) as an alternative to wrap fee programs. In UMAs, advisers provide portfolio recommendations rather than directly manage client funds. Advisers are not required to report their participation in UMAs in Form ADV.

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* ICI data in this section is from the Investment Company Institute, *2022 Investment Company Fact Book*. Includes unit investment trusts; excludes business development companies.

The introduction of zero-commission trading at some of the largest custodians may also be making wrap accounts less attractive.

However, asset growth in wrap fee programs remained strong, reflecting strong stock market returns. Annual growth over the three-year period ended in 2021 was 17.7%.

FIGURE 5E

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

Advisers that are Sponsor and/or Portfolio Manager in Wrap Fee Program

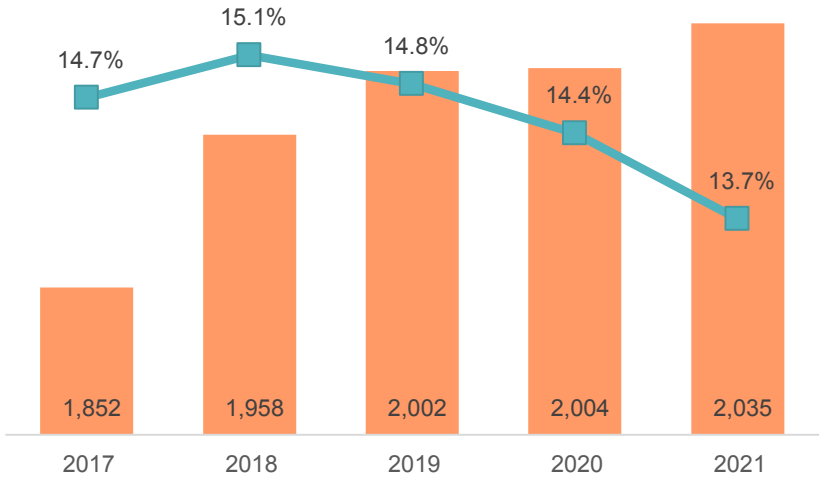
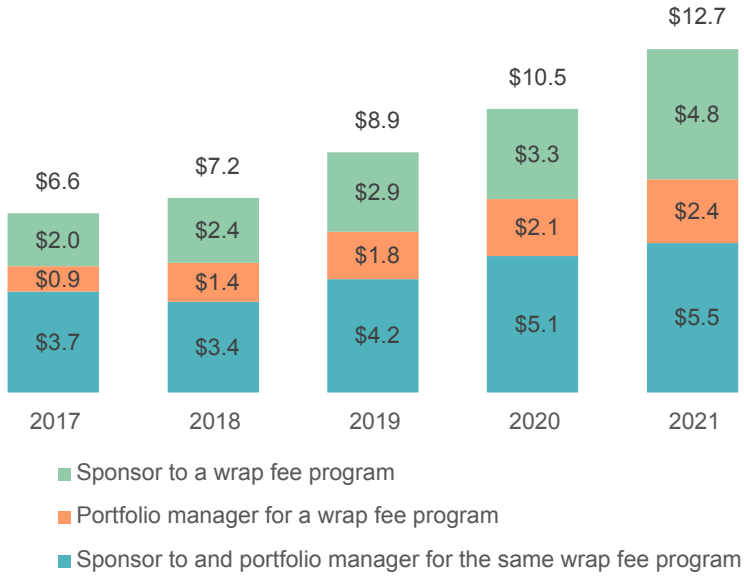


FIGURE 5F

. . . While Assets in Wrap Fee Programs Continued Growing

Assets, $ Trillions



Private Funds

A private fund is a pooled investment vehicle that would qualify to register with the SEC under the Investment Company Act of 1940 but that is exempt from registration because it limits the number or type of its investors.

In 2021, the number of private funds increased by 15.2%, to 50,081. While the number of private funds has been growing steadily over the past decade, the gains in 2021 represent a significant acceleration in that growth. Annual growth over the past 10 years has averaged only 6.7%.

Growth in the number of funds in 2021 was in the double digits for all types of private funds except hedge funds and liquidity funds.

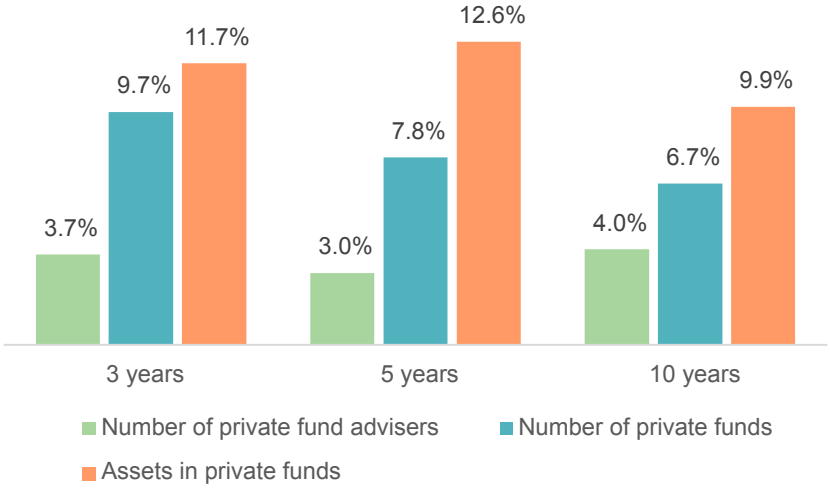
Asset growth was more modest, gaining only 5.7% to reach $20.8 trillion in total assets. However, the modest growth in 2021 can be attributed to a single adviser – a new registrant in 2019 with a single venture capital fund with $2.3 trillion in assets, which was removed from the tabulations in 2021 because it filed using an older Form ADV. (See About the Data for more detail about the guidelines for including advisers in the tabulations for this report.) Note that growth figures for periods of 3 years and longer are not affected by the addition and subsequent deletion of this adviser.

In 2021, 5,298 advisers were advisers to private funds (35.8% of all advisers). For comparison, in 2011 (the earliest year for which data is available), 3,979 advisers (37.8%) were advisers to private funds.

FIGURE 5G

Growth in Private Fund Assets Moderated in 2021

Annual Growth Rates for Periods Ended 2021



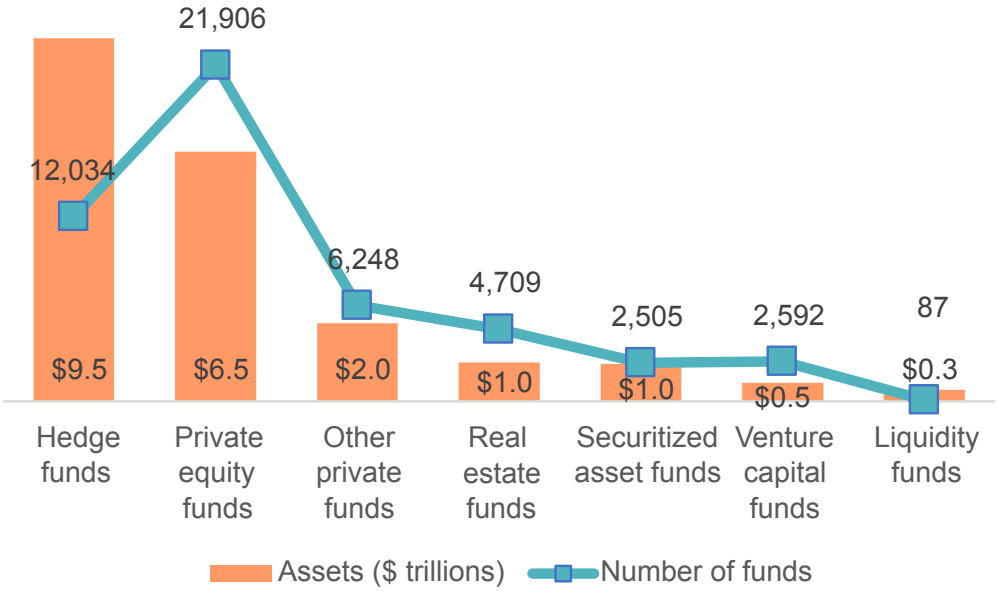
Note: 1-year growth excluded from chart. See text for explanation.

Hedge funds and private equity funds are the most common types of private funds. In 2021, hedge funds accounted for 45.5% of assets, while private equity funds accounted for 43.7% of the number of funds. Most of the largest private funds are hedge funds (54.6% of funds over $5 billion).

FIGURE 5H

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

2021



The share of private fund assets invested in hedge funds declined over the past 10 years, to 45.5% of private fund assets in 2021 versus 53.2% in 2011.

By contrast, over the past decade, assets of private equity funds have increased as a percentage of total private fund assets, to 31.2% in 2021 from 23.7% in 2011.

In terms of number of funds, private equity funds are most common (43.7% of private funds in 2021). The number of private equity funds has increased by more than 150% in the past 10 years. Private equity managers often raise assets by starting new funds rather than accepting additional investment in existing funds.

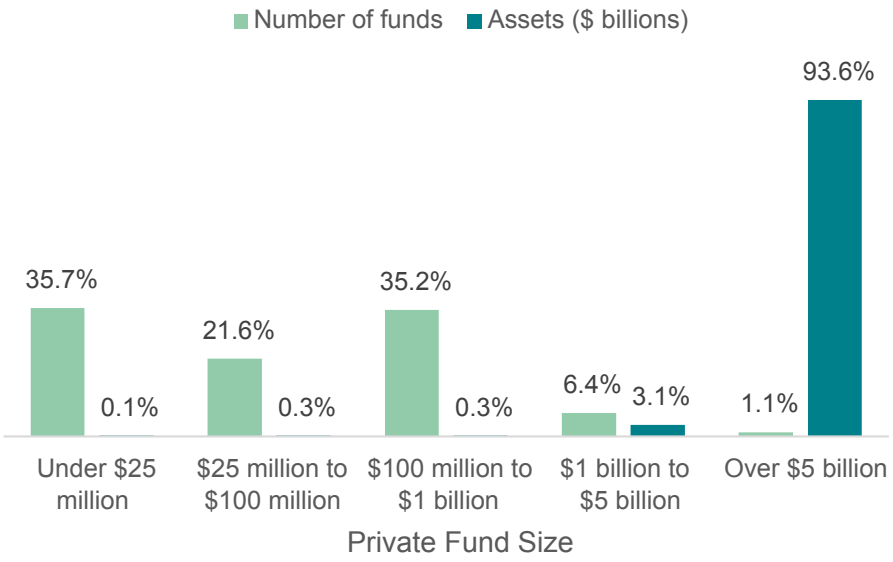
For detail, see Data Tables 5E and 5F (available online).

Most private funds are small. In 2021, over one-third of private funds had less than $25 million in assets, and more than half had less than $100 million.

FIGURE 5I

Most Private Funds are Small

2021

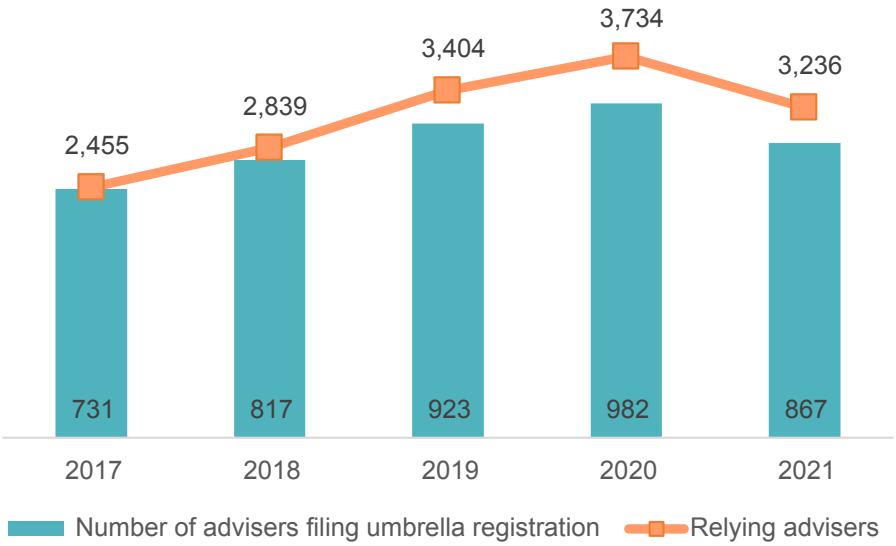


Since 2017, certain groups of private fund advisers have been permitted to file a single Form ADV with the SEC even though each is a distinct legal entity that would otherwise be required to register separately (the "relying advisers").

The number of advisers filing umbrella registrations declined in 2021 after 3 years of gains.

FIGURE 5J

The Number of Advisers Filing an Umbrella Registration is Decreasing



Appendix | Insights into Private Fund Operations

Form ADV Part 1 provides detail on the structure and operations of private funds.

The most significant changes in private fund operations since 2011 are:

- Private funds are more likely to be organized in the United States (69.9% in 2021 versus 64.6% in 2011).
- The median minimum investment declined (to $250,000 in 2021 from $500,000 in 2011), while the average minimum investment increased (to $8.1 million from $5.0 million).
- Clients are less likely to be solicited to invest in private funds (20.3% of private funds in 2021 versus 27.3% in 2011).
- Private funds are more likely to have a single adviser. In 2021, only 8.3% of funds had other advisers, compared to 13.5% in 2011.
- Private funds are less likely to use a prime broker (14.2% of funds in 2021 compared to 25.0% in 2011). The strong growth in the number of private equity funds is a key driver of this shift; private equity funds rarely use prime brokers.
- Private funds are more likely to use a third-party administrator (67.3% in 2021 compared to 57.0% in 2011).
- Private funds are less likely to use a non-related person to value assets. In 2021, 59.0% of private funds reported that 0% of assets are valued by a non-related person, compared to 51.0% in 2012. The average percentage of private fund assets valued by a non-related person declined to 40% from 47%.

TABLE 5A

Private Fund Operational Practices

Number of Funds (Unless Otherwise Specified)

Country of Organization		
	2011	**2021**
United States	17,618 (64.6%)	29,750 (69.9%)
Cayman Islands	7,130 (27.2%)	10,456 (22.8%)
Other	2,147 (8.2%)	3,268 (7.3%)
Basis for Exclusion from Registration		
	2011	**2021**
3(c)(1) Number of clients	9,673 (36.9%)	16,404 (32.8%)
3(c)(7) Qualified purchasers only	18,813 (71.8%)	38,092 (76.1%)
Specialized Fund Types		
	2011	**2021**
Master fund (in master-feeder arrangement)	4,091 (15.6%)	7,400 (14.8%)

TABLE 5A

Private Fund Operational Practices

Number of Funds (Unless Otherwise Specified) *(continued)*

Feeder fund (in master-feeder arrangement)	2,356 (9.0%)	2,631 (5.3%)
Fund of funds	6,986 (26.7%)	11,808 (24.7%)
Fund of funds investing in related fund	2,005 (28.7% of funds of funds)	2,914 (24.7% of funds of funds)
Investments by the Fund		
	2011	**2021**
Invests in registered funds	2,581 (9.9%)	2,390 (4.8%)
Investments and Investors in the Fund		
	2011	**2021**
Minimum investment	$500,000 (median) $5.0 million (average)	$250,00 (median) $8.1 million (average)
Beneficial owners (persons)	15 (median) 100 (average)	14 (median) 145 (average)
Ownership by adviser and related persons	1% (median) 15% (average)	1% (median) 14% (average)
Ownership by funds of funds	0% (median) 12% (average)	0% (median) 11% (average)
Sales limited to qualified clients	Not included in 2011 Form ADV	13,154 (26.2%) (80.2% of funds relying on 3(c)(1))
Ownership by non-U.S. persons	0% (median) 26% (average)	1% (median) 26% (average)
Clients solicited	7,161 (27.3%)	10,146 (20.3%)
Percentage of adviser's clients invested in fund	0% (median) 7% (average)	0% (median) 5% (average)
Relied on exemption under Regulation D	18,853 (72.0%)	35,567 (71.0%)
Advisory Services		
	2011	**2021**
Sub-adviser to the private fund	937 (3.6%)	1,076 (2.1%)
Fund has other advisers	3,527 (13.5%)	4,166 (8.3%)

TABLE 5A

Private Fund Operational Practices

Number of Funds (Unless Otherwise Specified) *(continued)*

Audits and Auditors	2011	2021
Financial statements subject to annual audit	23,271 (88.8%)	44,980 (89.8%)
Financial statements prepared in accordance with U.S. GAAP	22,631 (86.4%)	42,913 (85.7%)
Audited financial statements are distributed to investors	22,833 (87.1%)	42,439 (84.7%)
Auditing firm is independent public accountant	99.7% (of reported auditors)	99.3% (of reported auditors)
Auditing firm is registered with PCAOB	98.4% (of reported auditors)	99.2% (of reported auditors)
Auditing firm is subject to regular inspection by PCAOB†	97.9% (of reported auditors)	98.8% (of reported auditors)
Financial statements are distributed to investors	22,833 (87.1%)	42,439 (84.7%)
Received unqualified opinion or report not yet received	23,887 (91.1%)	44,742 (89.3%)

Service Providers	2011	2021
Uses prime broker	6,563 (25.0%)	7,131 (14.2%)
Uses custodian	23,718 (90.5%)	46,845 (93.5%)
Uses third-party administrator	14,934 (57.0%)	33,706 (67.3%)
Uses third-party marketer	5,224 (19.9%)	9,784 (19.5%)

Percentage of Fund Assets Valued by Non-Related Person	2011	2021
100%	11,022 (42.1%)	18,146 (36.2%)
0%	13,356 (51.0%)	29,564 (59.0%)
Median	0%	0%
Average	47%	40%

Note: 2011 excludes apparent error in number of beneficial owners.

†Please note that the percentage of auditing firms subject to regular inspection by the PCAOB in 2011 was incorrect in the *2021 Investment Adviser Industry Snapshot.*

The responses also provide insights on the differences between hedge funds and private equity funds. Some of the most significant differences between the practices of the 2 types of private funds are:

- Hedge funds are more likely to be domiciled in the Cayman Islands (36.9% of hedge funds versus 16.7% of private equity funds).
- More hedge funds are master funds in master-feeder structures (30.9%, compared to 11.6% of private equity funds).
- Hedge funds have, on average, more investors than private equity funds (395 for hedge funds versus 44 for private equity funds).
- As mentioned, hedge funds are more likely to use prime brokers than private equity funds (46.9% for hedge funds versus 4.3% for private equity funds). They are also more likely to use a third-party administrator (85.3% for hedge funds versus 57.9% for private equity funds).

6 Business Insights

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

87.3%

of advisers reported no disciplinary history in 2021.

56.5%

of advisers were deemed to have custody of client assets in 2021.

IN BRIEF

The percentage of advisers reporting no disciplinary history increased in 2021, to a new high of 87.3%. Larger advisers were more likely to report a disciplinary history.

The percentage of advisers reporting that they were deemed to have custody rose again in 2021, to a record high of 56.5%. Private fund advisers were more likely to be deemed to have custody.

Marketing Activities

In connection with the new Marketing Rule, the SEC amended Form ADV Part 1A by requiring information regarding an adviser's marketing activities. Specifically, amended Item 5 includes essentially "yes or no" questions about, among other things, an adviser's use of performance results, references to its specific investment advice, testimonials, endorsements, and third-party ratings in its advertisements.

While the most recent version of the Form now includes these questions, an adviser is only required to respond to the new questions as part of its next annual updating amendment that is filed after the compliance date for the new Marketing Rule (November 4, 2022). These questions were apparently added in response to an SEC staff FAQ that clarified that advisers may choose to comply with the new Marketing Rule in its entirety any time prior to the compliance date.

In most recent Forms ADV filed prior to April 8, 2022, approximately one-third of advisers (35.9%) responded to the marketing questions. Unfortunately, it is unclear as to why these advisers responded to these questions (*i.e.,* the percentage that filed because they are either complying with the new Marketing Rule or were unclear as to the compliance date for these questions as noted above).

Nonetheless, the advisers responding to the questions were fairly representative of the adviser universe, though somewhat smaller in terms of assets under management and less likely to manage private funds.

Approximately one-third of the respondents (33.8%) indicated that they are engaging in at least one of the specified marketing activities.

Over one-quarter of the respondents (28.9%) indicated that they include performance information in their advertisements, while 10.1% said that they include hypothetical performance.

Less than 10% of the respondents answered "yes" to each of the remaining questions. These questions address references to specific investment recommendations, testimonials, endorsements, third-party ratings, compensation for recommendations, and use of predecessor performance in advertisements.

Larger advisers were more likely to answer "yes" than smaller advisers. For example, 85.3% of respondents with more than $100 billion in assets answered "yes" to at least one question, while only 22.1% of advisers with less than $100 million in assets indicated that they engage in any of the specified marketing activities.

While these responses provide some indication of the level of use of these marketing practices in the industry, the final tally could change significantly once all advisers are required to respond to these questions next year.

Solicitors and Referral Compensation

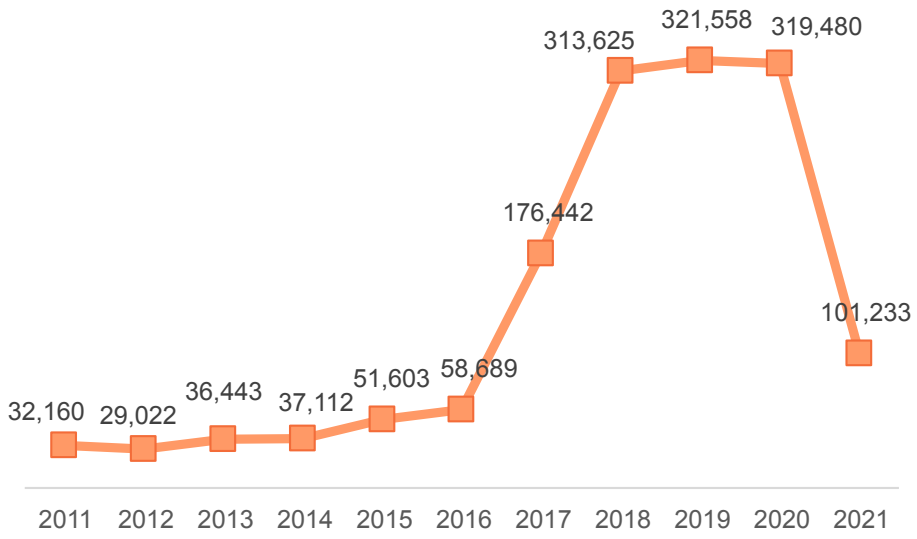
The percentage of advisers using third-party solicitors declined slightly in 2021 (26.5% versus 27.0% in the prior year). This percentage has remained fairly steady since 2017.

However, the number of third-party solicitors used by these firms plunged in 2021, after surging in 2017 and 2018. The 2017 and 2018 gains were driven by "refer a friend" programs on digital advice platforms, which gave clients a small cash credit for making a referral to the platform.

The decrease in 2021 is entirely attributable to a decline at a single digital advice platform, possibly as the result of a change in calculation methodology. This adviser is the largest user of third-party solicitors, employing 65.0% of all third-party solicitors in 2021 (down from 88.2% in 2020).

FIGURE 6A

The Number of Third-Party Solicitors Plunged in 2021



The percentage of advisers that compensate employees (through more than salary) for obtaining clients declined, to 17.4%, the lowest level in 5 years.

The percentage of firms receiving compensation for referrals was unchanged at 6.3%.

Affiliations

Many investment advisers are stand-alone businesses, in the sense that they are not affiliated with any other entities in the financial industry. In 2021, 39.4% of advisers had no affiliations in the financial industry.

An additional 26.9% of advisers had affiliations in the financial industry, but only with entities that engaged in investment management-related activities. Specifically, these affiliated entities are sponsors of pooled investment vehicles, other investment advisers, or a commodity pool operator (CPO) and/or commodity trading advisor (CTA).

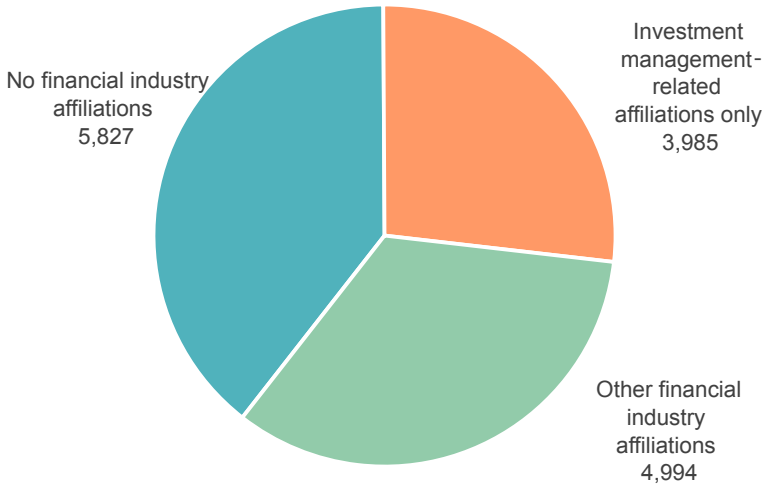
Approximately one-third of advisers (33.7%) have affiliations with firms in the financial industry that are not investment management-related (such as brokerage firms, insurance companies, or accounting firms).

For detail, see Data Table 6A (available online).

FIGURE 6B

Financial Industry Affiliations

Number of Advisers by Type of Financial Industry Affiliation, 2021



Compared with 10 years previously, advisers are less likely to be affiliated with another investment adviser (-6.5%) or a broker-dealer (-6.3%).

By contrast, advisers are more likely to be affiliated with a sponsor, general partner, or managing member of a pooled investment vehicle (+5.6%) or a commodity pool operator or commodity trading advisor (+3.7%).

TABLE 6A

Most Common Financial Industry Affiliations

Percentage of Advisers with Affiliation

Financial Industry Affiliation	2011	2021
Sponsor, general partner, or managing member of pooled investment vehicles	30.4%	36.0%
Other investment adviser (including financial planner)	36.1%	29.6%
Broker-dealer, municipal securities dealer, or government securities broker or dealer	22.5%	16.2%
Commodity pool operator or commodity trading advisor	12.4%	16.1%
Insurance company or agency	16.3%	15.9%

Other Business Activities

Looking within investment advisory firms, in 2021, 67.4% of advisers are in the business of providing investment advice only (with a focus on securities investments).

An additional 13.3% report that their only outside business activity is as a commodity pool operator (CPO) and/or a commodity trading advisor (CTA).

Only 19.3% of advisers are engaged in other business activities.

For detail, see Data Table 6B (available online).

FIGURE 6C

Most Advisers are Focused on Providing Investment Advice

Number of Advisers, 2021

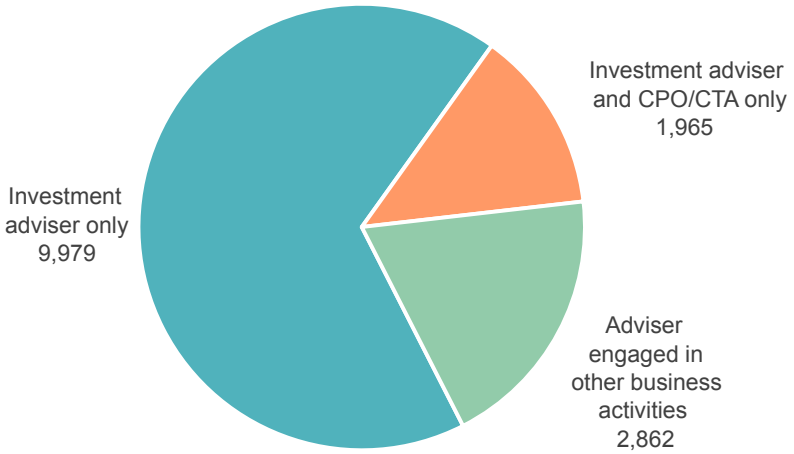


TABLE 6B

Most Common Other Business Activities

2021, Percentage of Advisers with Other Businesses

Other Business Activity	% of Advisers
Commodity pool operator or commodity trading advisor	14.8%
Other (non-financial)	8.1%
Insurance broker or agent	8.1%
Broker-dealer	2.9%
Registered representative of broker-dealer	2.8%
Other financial product salesperson	2.0%
Accountant or accounting firm	1.7%

Note that 17.3% of advisers report that they sell other products or services to advisory clients.

Books and Records

In 2021, 7,094 advisers (47.9%) maintained at least some of their required books and records somewhere other than their principal offices. For comparison, in 2011, 47.6% maintained some or all of their books and records outside their principal office.

Foreign Regulatory Authority

In 2021, 1,184 advisers (8.0%) were registered with a foreign financial regulatory authority. For comparison, in 2011, 861 firms (8.2%) were registered with a foreign regulator.

Outsourced CCO

In 2021, the chief compliance officer of 5.9% of advisers was compensated or employed by a third party not related to the adviser. (Investment companies advised by the firm are not considered third parties for purposes of this question.)*

Custody

Advisers increasingly report that they are deemed to have custody of client assets.

In 2021, 56.5% of advisers reported that they or a related person were deemed to have custody of client assets.

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

Of those advisers deemed to have custody, 97.3% were deemed to have custody of cash or bank accounts, while 88.6% were deemed to have custody of securities.

In total, advisers or related parties were deemed to have custody of over one-third of industry assets (35.6%).

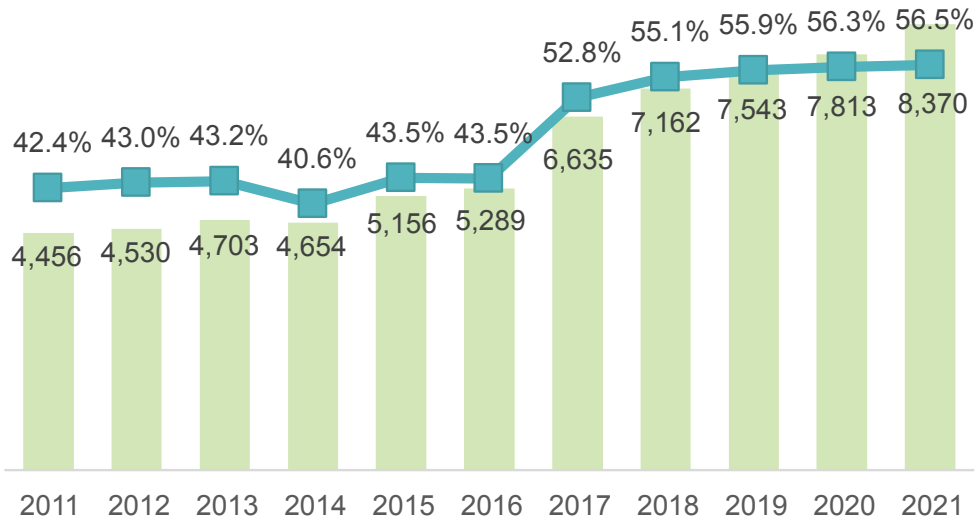
For detail, see Data Table 6C (available online).

*Data is for those advisers filing Form ADV in the first quarter of 2022.

FIGURE 6D

Advisers are Increasingly Likely to be Deemed to Have Custody of Client Assets

Number of Advisers and Percentage of Advisers

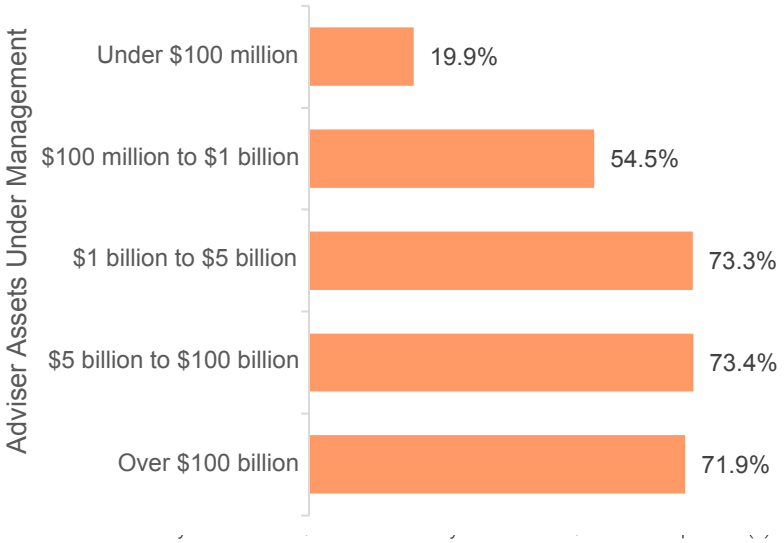


Advisers with assets under management of $1 billion or more are most likely to be deemed to have custody (70+% of advisers). However, only 1 in 5 of the smallest advisers (with under $100 million in assets) are deemed to have custody.

FIGURE 6E

Advisers of All Sizes are Likely to be Deemed to Have Custody of Client Assets

Percentage of Advisers, 2021



Private Funds

Because of the way that they are commonly structured, private fund advisers are more likely to be deemed to have custody of client assets (88.8% in 2021). Many private funds are limited partnerships with the adviser (or a related party) as general partner or limited liability companies with the adviser (or a related party) as managing member. In the SEC's view, an adviser (or related party) that is the general partner of a limited partnership – or the managing member of a limited liability company – is deemed to have custody because the general partner or managing member has legal ownership or access to client funds or securities.

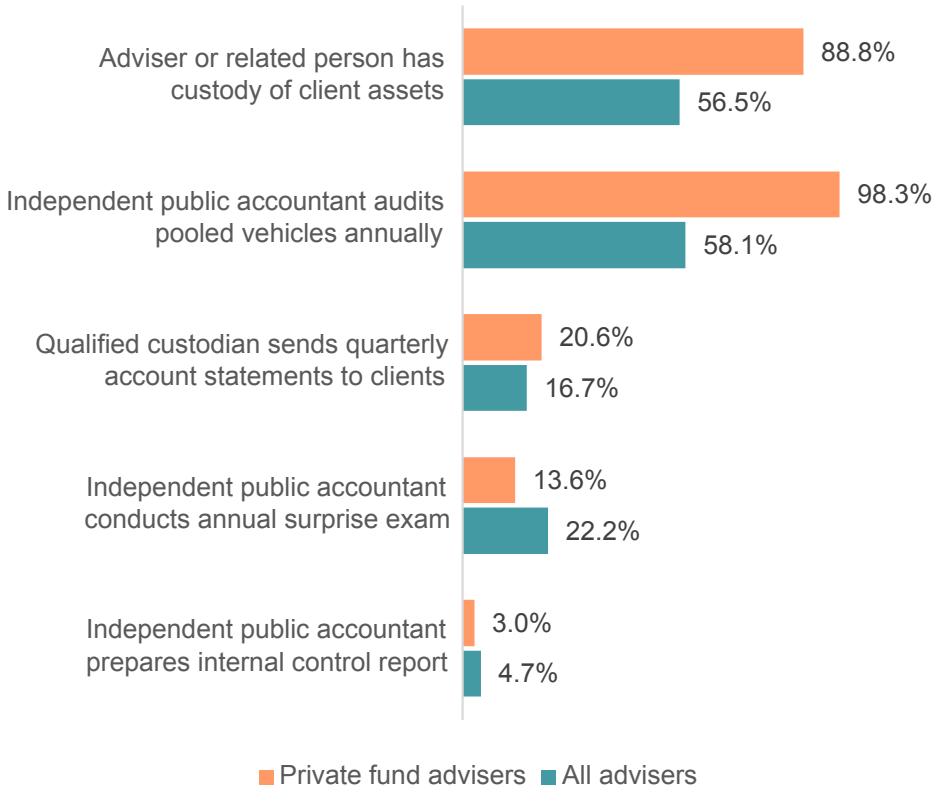
Of note, almost all private funds, regardless of custody (98.3% in 2021) report that an independent public accountant conducts an annual audit of the pooled vehicles they manage. As a result, private fund advisers are less likely to be subject to a surprise exam.

In 2021, 20.2% of private funds used a broker-dealer as a custodian, and only 0.9% of private funds used a custodian related to the adviser.

FIGURE 6F

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

2021



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

Separately Managed Accounts (SMAs)

Advisers to separately managed accounts are very likely to report that over 10% of their SMA assets are with a single custodian (86.4% in 2021).

Many advisers use a technology platform provided by a brokerage firm to manage their entire advisory practice. These platforms provide custody services in addition to trading capabilities and portfolio analysis tools, among other tools and services.

TABLE 6C

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

	2019	2020	2021
Custodian holds 10% or more of SMA assets (% of advisers with SMA assets)[1]	8,244 advisers (86.9%)	8,635 advisers (85.0%)	9,402 advisers (86.4%)
Assets held by custodian with 10% or more of SMA assets (% of industry assets)	$25.9 trillion (26.7%)	$28.7 trillion (26.1%)	$33.5 trillion (26.1%)
Assets held by custodian with 10% or more of SMA assets that is a related party (% of assets held by custodian with 10% or more of SMA assets)	$5.4 trillion (20.6%)	$6.6 trillion (23.1%)	$9.9 trillion (29.6%)
Assets held by custodian with 10% or more of SMA assets that is a brokerage firm (% of assets held by custodian with 10% or more of SMA assets)	$5.4 trillion (31.8%)	$6.6 trillion (34.5%)	$9.9 trillion (43.7%)

Qualified Custodians

In 2021, 335 advisers reported that they or a related person acted as a qualified custodian for client assets, a decrease from 350 in the previous year.[2] Because qualified custodians hold physical custody of assets, they must be a bank, brokerage firm, futures commission merchant, or qualifying foreign financial institution.

Of the related persons acting as a qualified custodian in 2021, 60.3% were able to demonstrate that they were operationally independent of the adviser, which means that they are not required to have a surprise exam.

[1]Please note that the percentage of advisers with SMA assets reporting that a single custodian held more than 10% of assets was incorrect in the *2021 Investment Adviser Industry Snapshot*.

[2]Please note that the number of advisers reporting that they or a related person acted as a qualified custodian for client assets was incorrect in the *2021 Investment Adviser Industry Snapshot*.

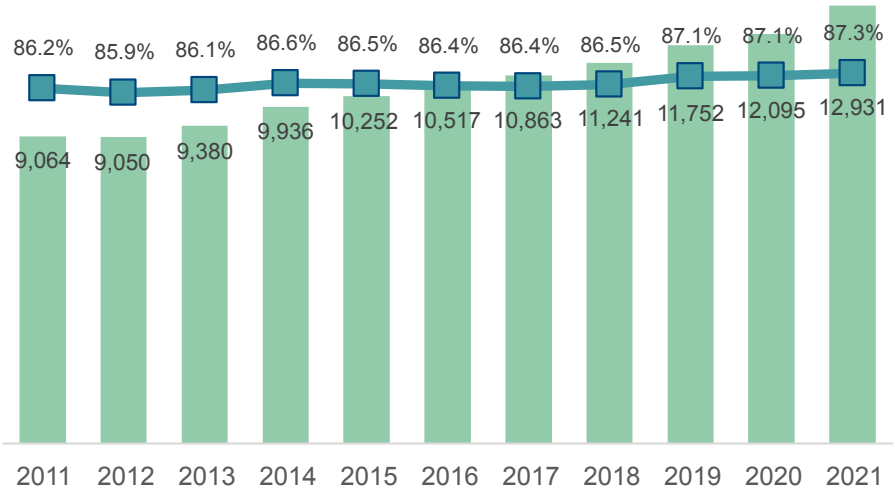
Disciplinary Information

The percentage of advisers with no disciplinary history increased in 2021, to a new high of 87.3%. This increase is partly driven by the addition of new smaller advisers that are less likely to have a disciplinary history.

FIGURE 6G

Advisers with No Disciplinary History

Number of Advisers, Percentage of Advisers



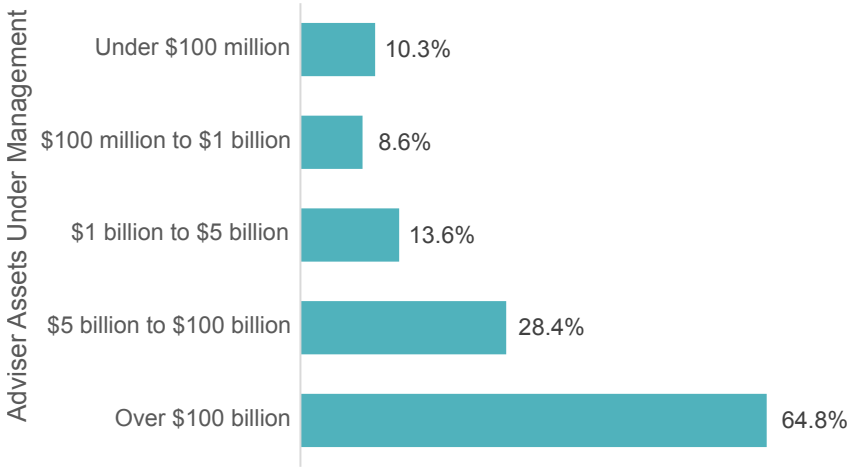
Larger advisers are more likely to report a disciplinary history. This higher reported rate is likely primarily attributable to these firms' greater complexity, wider scope of activities, larger number of employees, and larger number of affiliates.

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

FIGURE 6H

Larger Advisers are More Likely to Report Disciplinary Information

Percentage of Advisers, 2021



The number of advisers reporting that they had been convicted or pled guilty or "no contest" to a misdemeanor rose significantly in 2021, to 47 advisers from 34 advisers (+38.2%).

The number of advisers reporting that their authorization to do business was denied, suspended, revoked, or restricted also rose significantly (to 31 advisers from 20 advisers, or +55.0%). Approximately half of the increase appears due to increased reporting by affiliated advisers.

With regard to current proceedings, in 2021:

- 124 advisers reported that they were currently subject to a regulatory proceeding, versus 133 advisers in 2020.
- 159 advisers reported that they were currently subject to a civil proceeding (versus 146 in 2020).
- 29 advisers reported that they were currently subject to both a regulatory proceeding and a civil proceeding (unchanged from 2020).

TABLE 6D

Most Common Disciplinary Issues Reported by Advisers

2021

Disciplinary Issue	Number of Advisers Reporting
A regulator other than the SEC or CFTC found that adviser was involved in a violation of investment-related regulations or statutes	933
A regulator other than the SEC or CFTC entered an order against adviser in connection with an investment-related activity	696
The SEC or CFTC found that adviser was involved in a violation of SEC or CFTC regulations or statutes	681
The SEC or CFTC imposed a civil money penalty or ordered adviser to cease and desist from any activity	672
A self-regulatory organization or commodities exchange found that adviser was involved in a non-minor violation of its rules	644
The SEC or CFTC entered an order against adviser in connection with investment-related activity	625

Appendix | The Long View

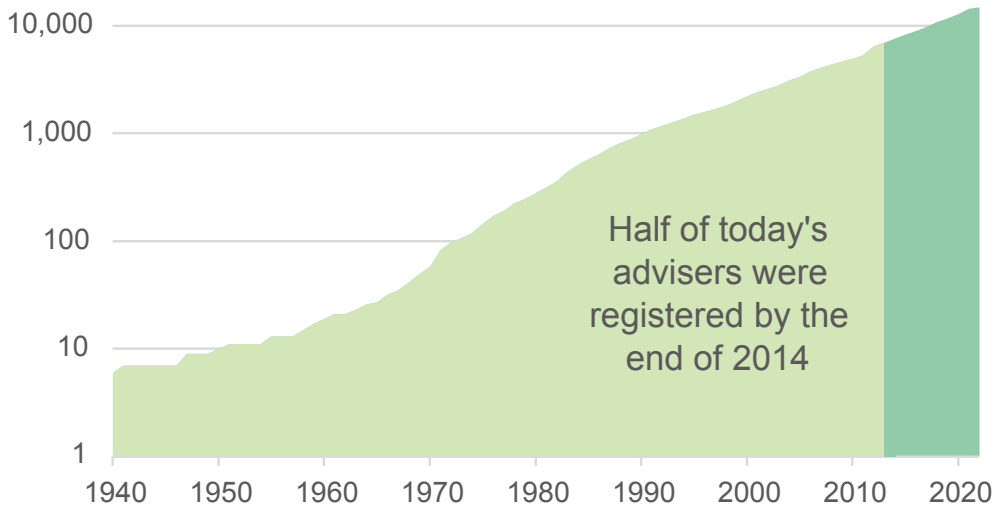
Firms that were in existence when the system of SEC registration first began, after the passage of the Investment Advisers Act of 1940, are still operating today.

Indeed, 8 firms are more than 75 years old, while 93 firms have passed the 50-year mark (as of June 30, 2022).

FIGURE 6I

A Long-Term View of Industry Growth

Number of Current Advisers with SEC Registration Effective Prior to Date



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

TABLE 6E

The 25 Oldest Investment Advisers

Investment Adviser	Registration Effective Date
Barings LLC	November 1, 1940
Beck, Mack & Oliver	November 1, 1940
DWS Investment Management Americas, Inc.	November 1, 1940
Everett Harris & Co.	November 1, 1940
Heber Fuger Wendin Inc.	November 1, 1940
St. Denis J. Villere & Co., LLC	November 1, 1940
Howe and Rusling, Inc.	January 3, 1941
T. Rowe Price Associates, Inc.	March 29, 1947
William Blair & Company LLC	December 24, 1947

TABLE 6E

The 25 Oldest Investment Advisers

Bishop & Associates Inc.	March 1, 1950
Meyer Handelman Company LLC	August 19, 1951
Oppenheimer & Co. Inc.	February 9, 1955
Shufro, Rose & Co., LLC	April 7, 1955
Invesco Investment Advisers LLC	April 6, 1958
Fayez Sarofim & Co.	July 16, 1958
Dodge & Cox	March 14, 1959
Baxter Investment Management	May 1, 1959
J.M. Forbes & Co. LLP	May 6, 1960
Argus Investors' Counsel, Inc.	December 16, 1960
The Winthrop Corporation	February 24, 1961
Mairs & Power	November 15, 1961
Pegasus Asset Management Inc.	May 25, 1963
Edward Jones	October 24, 1963
Sargent Management Co.	January 19, 1964
Citigroup Global Markets Inc.	February 23, 1964

Note: Effective date of registration from Form ADV data based on continuity of CRD number. Mergers or restructurings can result in a new CRD number and new effective date. As a result, this table does not capture all firms in existence on or before 1964.

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

TABLE 6F

Average Age of Advisers by Size

Assets Under Management	Average SEC Registration Effective Date
Over $100 billion	October 1995
$5 billion to $100 billion	August 2005
$1 billion to $5 billion	September 2008
$100 million to $1 billion	December 2012
Under $100 million	September 2015

Definitions

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

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

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

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

borrowings For the purposes of Form ADV, borrowings includes:

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

Borrowings excludes:

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

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

business development company Company that has elected to be a business development company pursuant to Section 54 of the Investment Company Act of 1940.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

hedge fund Any private fund that:

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

high net worth (HNW) individual An individual who is a qualified client or qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940. In 2021, this was an individual with at least $1.1 million in assets under management with an adviser or with net worth exceeding $2.2 million (excluding the value of a primary residence).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proprietary product Investment vehicle owned or managed by the adviser.

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

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

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

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

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

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

regulatory assets under management (RAUM) Standardized method of calculating assets under management. RAUM are gross assets under management, including proprietary assets, assets managed without compensation, and assets of foreign clients. RAUM was mandated in Form ADV Part 1 beginning in 2011, although advisers may use other methodologies in Part 2A. In 2021, 650 advisers (4.4%) used a method other than RAUM to report client assets in Part 2A.

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

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

separately managed account (SMA) Account other than a registered investment company, business development company, or other pooled investment vehicle.

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

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

testimonial Recommendation from a current client or investor.

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

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

venture capital fund A private fund meeting the definition of venture capital fund in rule 203(l)-1 under the Investment Advisers Act of 1940.

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

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