INVESTMENT ADVISER INDUSTRY
SNAPSHOT 2024

INVESTMENT ADVISER ASSOCIATION

COMPLY™

A Snapshot of the Industry in 2023

15,396
SEC registered investment advisers

63.0%
provide asset management for individuals

64.1 million
clients

$128.4 trillion
in assets

1,006,471
employees

92.7%
employ 100 or fewer people

The IAA is the leading organization dedicated to advancing the interests of fiduciary investment advisers. For more than 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 and YouTube.

818 Connecticut Ave. NW, Suite 600
Washington, DC 20006
202-293-4222

Karen L. Barr
President & CEO
karen.barr@investmentadviser.org

Gail C. Bernstein
General Counsel
gail.bernstein@investmentadviser.org

Laura L. Grossman
Associate General Counsel
laura.grossman@investmentadviser.org

Meredith Wise
Sr. Manager, Communications & Marketing
meredith.wise@investmentadviser.org

Janay Rickwalder
Vice President, Communications & Marketing
janay.rickwalder@investmentadviser.org

Garrett Honea
Sr. Manager, IT & Operations
garrett.honea@investmentadviser.org

Hasika Wijegunawardana
Sr. Coordinator, Marketing & Membership
hasika.wije@investmentadviser.org

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136 Madison Ave., 6th Floor
New York, NY 10016
860-435-0200

John Gebauer
Chief Regulatory Officer
jgebauer@comply.com

Amber Tatman
Senior Director, Compliance Advisory
atatman@comply.com

Marilyn Miles
Senior Vice President, Compliance Advisory
mmiles@comply.com

David Miller
Senior Support Specialist
dmiller@comply.com

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Investment Adviser Industry Snapshot 2024

Evolution Revolution Reimagined

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

We continue to add more charts, tables, and analysis to make it easy to see and understand the trends. In this year's edition, we have added information about SEC exempt reporting advisers, allowing us to provide a comprehensive view of private fund management. We have also incorporated more detail on state advisers. Finally, we have provided insights on affiliated groups of SEC registered advisers.

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

The industry continued to grow. The number of advisers climbed for the twelfth year in a row to another record high during the year, while assets under management rebounded with the markets to their 2021 level. And, for the first time, the number of non-clerical employees surpassed the 1 million mark. See Part 1 | Size and Growth for more information.

Individual investors are increasingly seeing the value of the fiduciary advice offered by investment advisers. Investors are increasingly engaging investment advisers, which continuously provide investment management advice as fiduciaries, putting their clients' interests ahead of their own. Over the past 6 years, over 24 million more individuals have engaged an investment adviser for asset management – a rate of growth in the number of individual clients of 12.8% per year and in assets managed for those clients of 15.1% per year. See Part 2 | Clients for more information.

Regulatory change looms large. Rule proposals from the SEC have the potential to lead to significant industry change. For example, the safeguarding proposal would subject over 5,000 additional advisers – more than one-third of the industry – to custody requirements. See Part 6 | Business Insights for more information on the safeguarding proposal.

The environment remains in flux, with uncertainty about the outlook for the economy and markets and the impending November election. However, we believe that the past year again illustrates the important role that the investment adviser industry plays, both by providing an essential service to investors and as a contributor to the economy.

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

Karen Barr
President & CEO
Investment Adviser Association

John Gebauer
Chief Regulatory Officer
COMPLY

New and Noteworthy

The number of clients using asset management services increased in 2023 to a record high of 56.7 million, a gain of 4.4%. However, the number of clients using non-asset management services declined for the second year in a row; this decline was again the result of digital advice providers, which offer these services through online platforms, continuing to refine their criteria for including clients in this category. Even with this decline, the total number of clients increased by 3.5%, to 64.1 million. See Part 2 | Clients for more information.

The number of offices in private residences continued to rise. Strong gains over the past 2 years suggest that advisers are transitioning to a permanently remote or hybrid model. See Part 3 | Employees for more information.

Nearly 20% of SEC registered advisers are affiliated with another SEC registered adviser. These advisers formed 1,015 affiliated adviser groups. On average, these affiliated adviser groups are composed of 3 SEC registered advisers and have $95.0 billion in assets under management. However, while these groups are large on average, they vary significantly in size, and standalone advisers can also be quite large. See Part 6 | Business Insights for more information.

SEC exempt reporting advisers manage over 40% of private funds and over 20% of private fund assets. They account for nearly half of the advisers managing private funds. See Part 5 | Investment Insights for a comprehensive look at private funds and their advisers that includes SEC exempt reporting advisers.

Venture capital and private equity funds are the most common types of private funds, but hedge funds are largest in terms of assets. SEC exempt reporting advisers manage over 33,000 venture capital funds, though over half of these funds are sponsored by a single exempt reporting adviser providing an online platform for launching a venture capital fund. The average hedge fund has over $850 million in assets, compared to approximately $46 million for the average venture capital fund. See Part 5 | Investment Insights for more information.

An Industry of Small Businesses

Many investment advisers are small businesses. In 2023:

- 92.7% of advisers employed 100 or fewer employees
- Over two-thirds of advisers managed less than $1 billion in assets, and nearly 90% managed less than $5 billion
- Smaller advisers accounted for a high proportion of employees relative to their assets managed, and “same adviser” employment growth was strongest at smaller advisers
- Advisers focused on individuals as clients were likely to be small, with an average of just 9 employees, 2 offices, and $365 million in assets under management
- Advisers with less than $1 billion in assets accounted for almost all of the new SEC registrations, with new registrants accounting for nearly 10% of firms in this size range

Investment Adviser Industry Trends

	2019	**2020**	**2021**	**2022**	**2023**
SEC registered advisers	13,494	13,880	14,806	15,114	15,396
Provide asset management for individuals	63.7%	62.4%	63.1%	62.8%	63.0%
Clients	51.9 million	60.8 million	63.3 million	62.0 million	64.1 million
Assets under management	$97.2 trillion	$110.0 trillion	$128.4 trillion	$114.1 trillion	$128.4 trillion
Employees	871,971	879,755	928,505	971,487	1,006,471
100 or fewer employees	93.0%	93.0%	93.0%	91.7%	92.7%

About the Data

The data in this report is drawn primarily from Form ADV Part 1A filings made by SEC registered investment advisers.

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. Advisers filing with state regulators must also complete Part 1B.
- Part 2 has two components:
    - Part 2A is a narrative description of the investment adviser's qualifications, investment strategies, conflicts of interest, and business practices. It is often called the "firm brochure."
    - Part 2B is the "brochure supplement" containing information on specific individuals providing advisory services. Part 2B is given to clients, but is not filed with the SEC.
- Part 3 is Form CRS (client or customer relationship summary) which provides information about services and fees to retail clients or customers.

Not all advisers are required to complete all parts of Form ADV. More information about Form ADV is available at sec.gov/about/forms/formadv.pdf.

Notes regarding the data in this report:

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

Advisers. This report focuses on Form ADV Part 1A responses from SEC registered investment advisers. While SEC exempt reporting, state registered, and state exempt reporting advisers also file Form ADV Part 1A, responses from these advisers are excluded, except as noted.

The following data has been excluded from the tabulations for the years 2011 through 2023:

- *Data based on older versions of Form ADV.* Data from versions of Form ADV earlier than the October 2021 version are excluded from the current report.
- *Data for advisers no longer eligible for SEC registration.* Advisers typically become ineligible for SEC registration because their assets under management have fallen below $90 million.

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.

All of the investment advisers involved with a client's assets 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 certain categories 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, client totals are slightly understated.

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

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 materially 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, 2023, must file Form ADV Part 1A by March 30, 2024, reporting data as of December 31, 2023, for most questions and reporting assets under management calculated within 90 days of March 30, 2024.

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 2023 includes information from the most recent Forms ADV Part 1A filed with the SEC as of April 10, 2024.

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

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 excluded from the tabulations.

Note on Data Labeling

The *Investment Adviser Industry Snapshot* labels data with the date of the information in the Forms ADV being summarized. For example, the information in the Forms ADV on file with the SEC as of April 10, 2024, is almost entirely from 2023. This data is appropriately compared to 2023 data from other sources. Therefore, the *Adviser Snapshot* labels this data as "2023."

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

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

A Short History of Form ADV

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

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

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

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

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

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

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

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

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

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

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

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

Umbrella registrations are permitted by filing Schedule R.

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

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

December 2020
In the new investment adviser Marketing Rule, the SEC mandates additional questions about advertising practices, which were added to Form ADV in 2022. All advisers must answer these questions in their next annual updating amendments to Forms ADV filed on or after November 4, 2022.

March 2024
The SEC adopts amendments to the internet adviser exemption, requiring that advisers using the exemption have an operational website and eliminating the *de minimis* exception for non-internet clients.

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

A Short History of the *Adviser Snapshot*

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

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

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

2024 Information about exempt reporting advisers is added, along with additional data on state advisers.

1

Size and Growth

The number of SEC registered investment advisers reached a record high in 2023, while assets rebounded under favorable market conditions.

At the end of 2023,

$128.4 trillion in assets were managed by

15,396 SEC registered advisers.

92.7% of advisers had 100 or fewer employees.

IN BRIEF

In 2023, assets managed by SEC registered investment advisers rose by 12.6%, rebounding from difficult market conditions the previous year and returning to 2021 levels. The number of advisers grew by 1.9%.

Most investment advisers are small businesses. In 2023, 92.7% of advisers had 100 or fewer non-clerical employees, and 69.3% managed less than $1 billion in assets, while 88.0% managed less than $5 billion.

The industry is dynamic, with a significant number of advisers entering and exiting the industry each year. This turnover is concentrated in advisers with less than $1 billion in assets. However, 92.4% of industry assets were managed by firms with more than $5 billion in assets under management.

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

Firms and Assets

In 2023, assets managed by SEC registered investment advisers rebounded from the prior year's decline. With a 12.6% increase, assets returned to 2021 levels.

Industry assets under management have increased in 20 of the past 23 years. Over the past 23 years, assets have increased by 8.4% per year on average. This rate of growth exceeds the 7.8% average annual return for large stocks, an indicator of the increasing importance of the investment advisory industry.

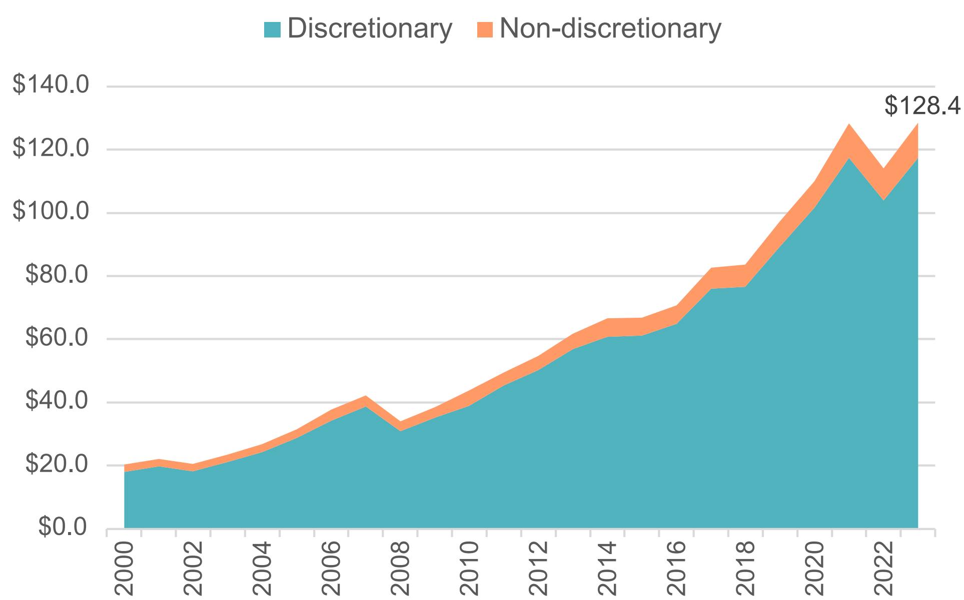
As in prior years, in 2023, almost all assets were managed on a discretionary basis (91.4%).

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

FIGURE 1A

Assets Under Management Rebounded in 2023

Assets Under Management of SEC Registered Advisers, $ Trillions



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. In 2019, the SEC released its interpretation regarding the standard of conduct for investment advisers.

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

An adviser's duty of care includes:

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

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

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

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

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

In recent years, the SEC has engaged in rulemaking to update the standard of conduct for brokerage firms, but the business models for brokerage firms and investment advisers differ significantly, and an investment adviser's fiduciary duty is relationship-based, rather than transaction-based, and extends to all aspects of an advisory relationship.

In 2023, the number of SEC registered investment advisers increased by 282 firms, or 1.9%, versus the prior year – reaching a record high of 15,396 firms.

The number of SEC registered firms has increased in 21 of the past 23 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 23-year period was 3.7%.

Over two-thirds of advisers (72.1%) were structured as "pass-through" entities (limited liability companies, limited partnerships, limited liability partnerships, or partnerships). Over one-quarter (25.6%) are corporations.

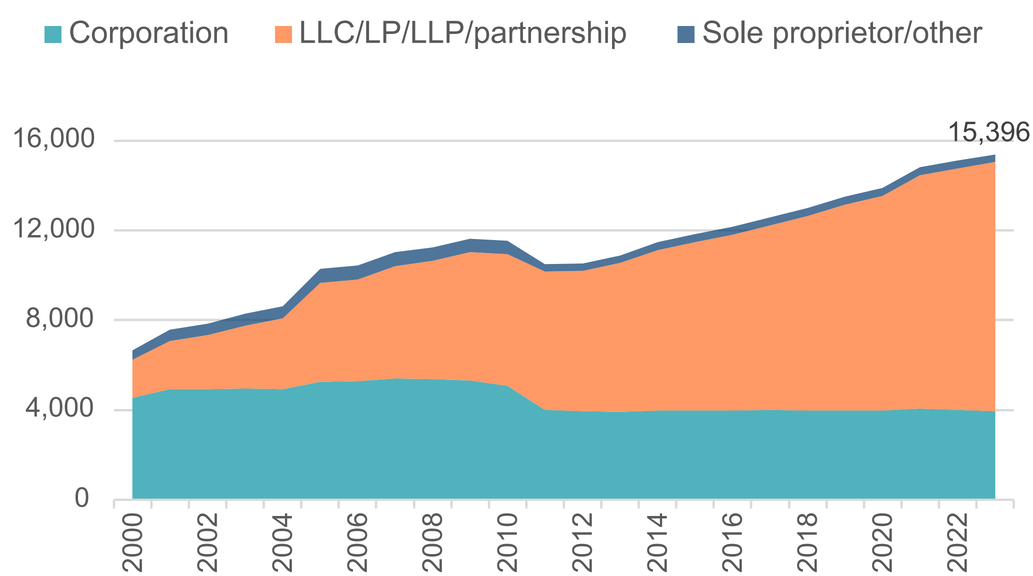
Advisers with longer tenure are more likely to be corporations. Nearly two-thirds of advisers registered with the SEC before 2000 are corporations (63.0%); advisers registered after that date are much more likely to be pass-through entities.

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

FIGURE 1B

The Number of Advisers Reached a Record High in 2023

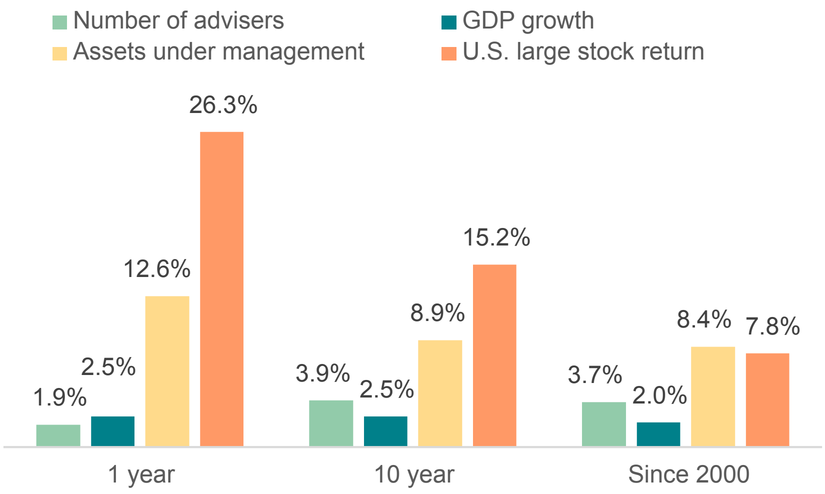
Number of SEC Registered Advisers by Form of Organization



Over the past 23 years, the growth in the number of SEC registered advisers has been generally consistent with economic growth as measured by GDP. Growth in assets under management has been broadly driven by market returns.

FIGURE 1C

Economic Growth and Market Returns Drive Industry Growth



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

Measuring Investment Adviser Assets

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

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

Advisers must include in RAUM the value of all securities portfolios for which they provide “continuous and regular supervisory or management services.” RAUM includes only those accounts where the adviser has the authority to implement investment decisions through trading, either on a discretionary basis or with the client’s approval.

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

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

While advisers must use RAUM in Form ADV Part 1, they may include assets under advisement in Form ADV Part 2A. In 2023, 629 advisers (4.1%) indicated that they used a methodology other than RAUM to report assets under management in Part 2A.

A Varied and Dynamic Industry

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

In 2023, 88.0% of advisers had less than $5 billion in assets under management, with more than half having between $100 million and $1 billion.

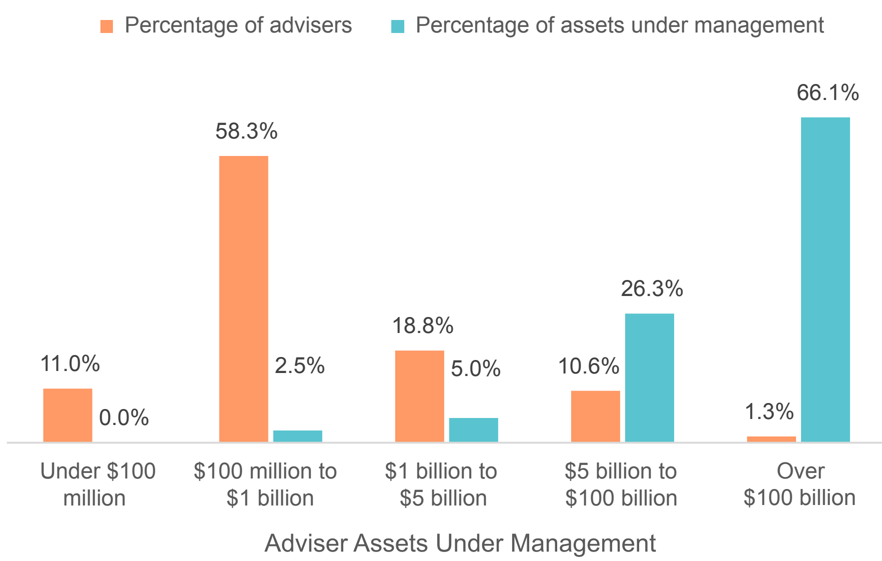
By contrast, in 2023, 92.4% of industry assets were managed by firms with more than $5 billion in assets under management, with 66.1% of assets managed by the 207 largest firms.

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

FIGURE 1D

Most Advisers Are Smaller, While Larger Firms Manage Most of the Assets

2023



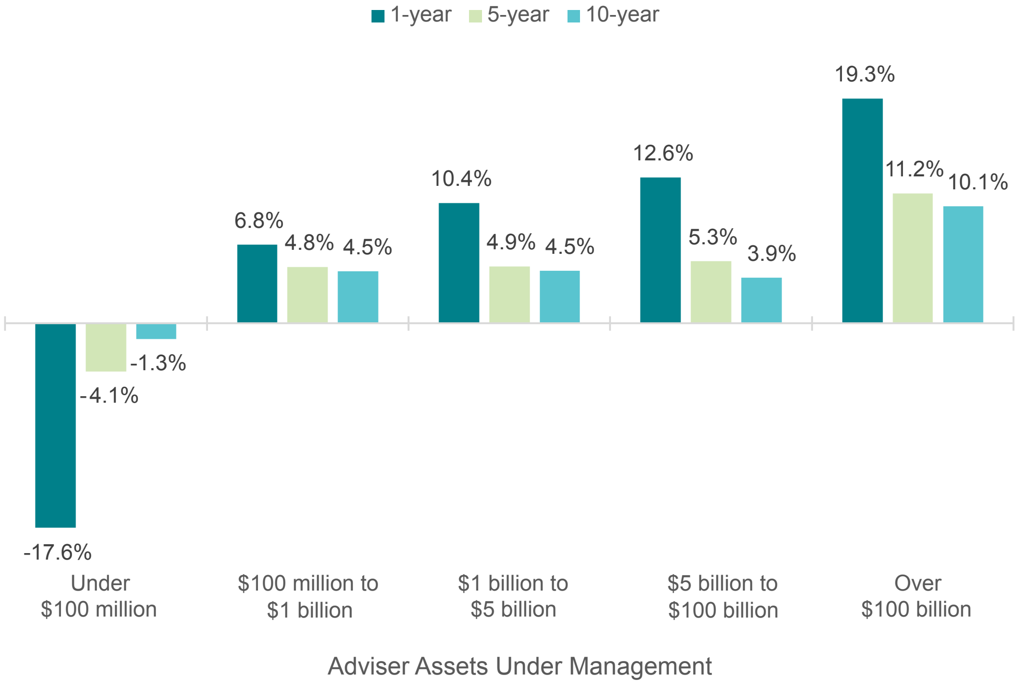
Advisers with more than $100 billion in assets under management as a group experienced the strongest growth over the past 10 years, with compound annual growth in assets of 10.1%. More than half of this growth was the result of firms moving up into this size category during a period of generally favorable markets. The remainder was due to growth of firms already in the category.

Conversely, as a group, assets of firms with under $100 million in assets declined over all time periods shown. In periods of rising asset values, firms in this size range generally either move into larger size categories or terminate SEC registration.

FIGURE 1E

Asset Growth Has Generally Been Strongest for the Largest Firms

Percentage Change in Assets Under Management



The investment adviser industry is dynamic, with a significant number of advisers entering and exiting the industry each year. For example, in 2023, there were 1,114 new advisers and 832 advisers that terminated their registrations with the SEC, for a net addition of 282 firms.

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

Advisers must terminate their SEC registration when their assets under management fall below the minimum threshold of $100 million. If they remain in the investment advisory business, they may switch their registration to the states or become an exempt reporting adviser. (The latter is an option only if they advise private funds exclusively.)

SEC Registered Advisers in Context

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

Advisers that manage at least $100 million in assets are generally required to register with the SEC (absent an exemption). In addition, certain advisers must register with the SEC regardless of size, such as advisers that manage registered funds. Some advisers have the option of registering with the SEC, such as those providing advice solely through digital platforms (using the "internet adviser" exemption).

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

Investment advisers that are not eligible to register with the SEC must register in the states where they have a place of business and/or have more than a *de minimis* number of clients.

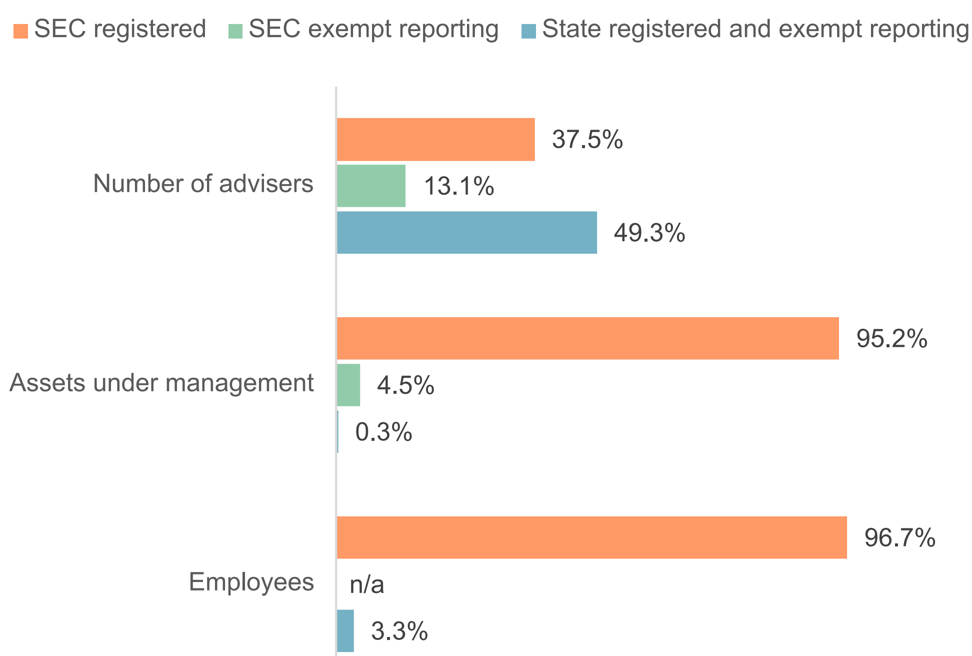
Some advisers to private funds may qualify for "exempt reporting adviser" status. Advisers that manage only private funds with less than $150 million or that manage only venture capital funds are not required to register with the SEC, though they are required to file and answer certain questions in Form ADV Part 1. Some states have exempt reporting status for smaller advisers in the state, but others do not.

While state advisers are almost half of the number of advisers, SEC registered advisers account for most of the assets under management and employment in the industry.

FIGURE 1F

The Relative Size of SEC and State Registered and Exempt Reporting Advisers

2023



Note: For SEC exempt reporting advisers, assets under management are gross assets in private funds; assets under management not available for state exempt reporting advisers. Employees not available for SEC and state exempt reporting advisers.

In addition to investment advisers, investors commonly use brokerage firms as a source of financial advice.

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

In 2022, there were 3,378 brokerage firms and 15,114 investment advisers. (As of time of publication, 2023 data on brokerage firms was not available.)

TABLE 1A
Number of Brokerage Firms and SEC Registered Investment Advisers

Year	Brokerage Firms	SEC Registered Investment Advisers
2017	3,726	12,578
2018	3,607	12,993
2019	3,517	13,494
2020	3,435	13,880
2021	3,394	14,806
2022	3,378	15,114
2023	n/a	15,396

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

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

Licensed Financial Professionals

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

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

Investment adviser representatives (IARs) work for investment advisers. ("Investment adviser" or "registered investment adviser" refers to the firm, while "investment adviser representative" refers to an individual working for that firm.) IARs generally must be registered in the states where they work. All 50 states currently require that IARs be licensed, though some states base their 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.

Insurance agents work for insurance companies. They are licensed by the states to sell insurance products including some types of annuities.

Note that many individuals hold multiple licenses. It is very common for a financial professional to be *dual licensed* as both a registered representative and an investment adviser representative.

While there are fewer brokerage firms than investment advisers, brokerage firms are significantly larger than investment advisers in terms of employment of licensed professionals, both in total and on average. At the end of 2022, brokerage firms employed 620,882 registered representatives, or an average of 184 per firm, while SEC and state registered advisers employed 393,294 investment adviser representatives, or an average of 12 per firm. (As of time of publication, 2023 data on registered representatives was not available.)

TABLE 1B
Number of Licensed Financial Professionals

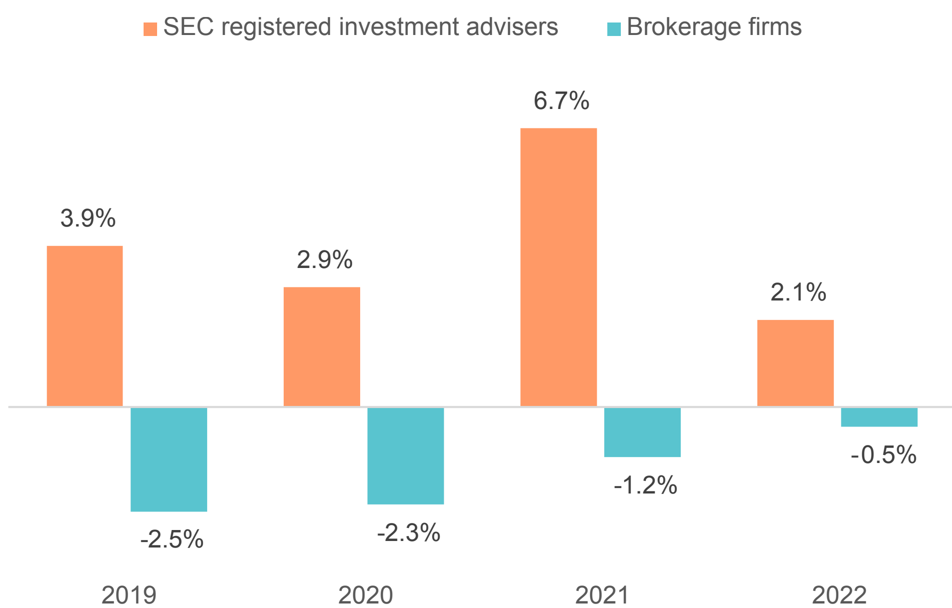
Type	2019	2022
Investment adviser representatives	65,514	80,977
Dual licensed representatives	296,677	312,317
Registered representatives	328,997	308,565

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

Source: *FINRA Industry Snapshot 2023.*

The number of SEC registered investment advisers has been increasing, while the number of brokerage firms has been declining.

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



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

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

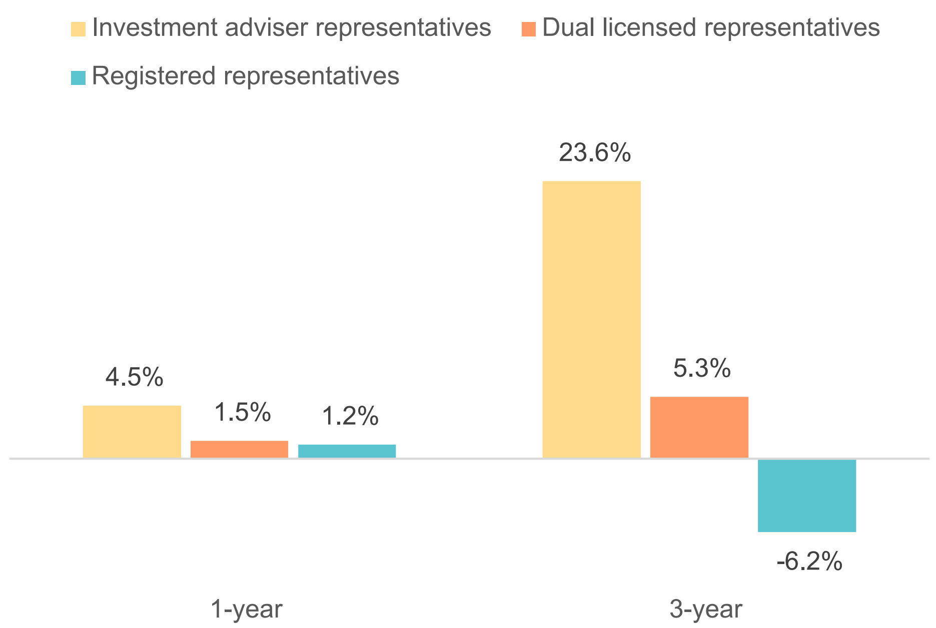
Similarly, over the 3 years ended 2022, the number of professionals licensed as IARs (including professionals dual licensed as both an IAR and a registered representative) increased. By contrast, the number of professionals licensed solely as registered representatives declined over the 3-year period,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

The shift toward investment advisory firms and IARs has been a longer-term trend. Investors are increasingly seeing the value of the fiduciary advice offered by investment advisers. At the same time, investment professionals are seeing the benefits of the investment adviser business model.

FIGURE 1H

Growth in the Number of Investment Adviser Representatives Has Been Strong

Percentage Change in Number of Licensed Financial Professionals, Periods Ended 2022



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

Source: *FINRA Industry Snapshot 2023.*

Appendix | An Industry of Small Businesses

Most SEC registered advisers are small businesses.

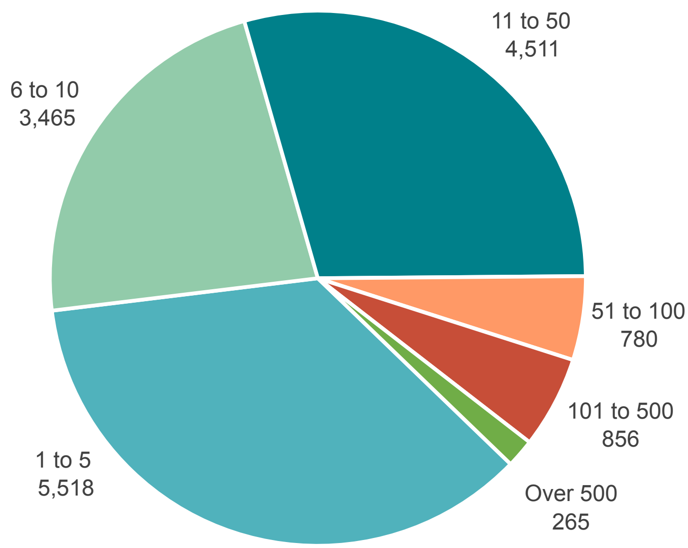
In 2023, 92.7% of SEC registered advisers employed 100 or fewer people. Only 1.7% had a workforce of over 500 people, while the median investment adviser employed 8 people.

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

FIGURE 1I

Most Advisers are Small Businesses

Number of Advisers by Number of Non-Clerical Employees, 2023



Note: Excludes advisers reporting zero employees.

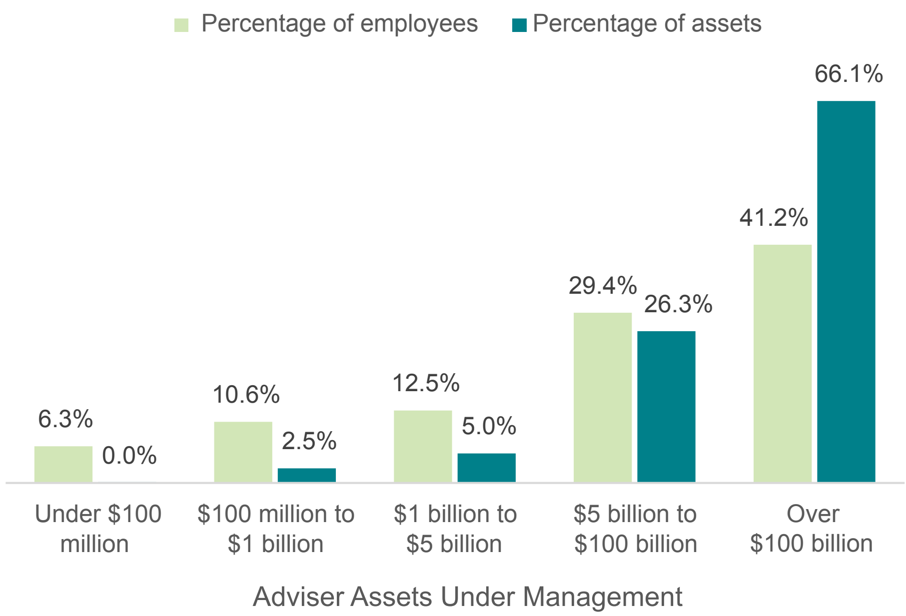
In 2023, 69.3% of advisers managed less than $1 billion in assets, and 88.0% managed less than $5 billion.

Smaller advisers accounted for a disproportionately high percentage of employment relative to their assets under management. For example, in 2023, advisers with $100 million to $5 billion in assets under management (77.1% of firms) managed 7.6% of total industry assets but accounted for 23.1% of employment.

FIGURE 1J

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

2023



New SEC registrants are likely to be small. In 2023, 93.6% of the new SEC registrants had less than $1 billion in assets under management; these new firms accounted for 9.8% of the firms with under $1 billion in assets. Over half of these firms have individuals as clients, approximately one-quarter advise private funds, and 15.1% are related to another SEC registered adviser.

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

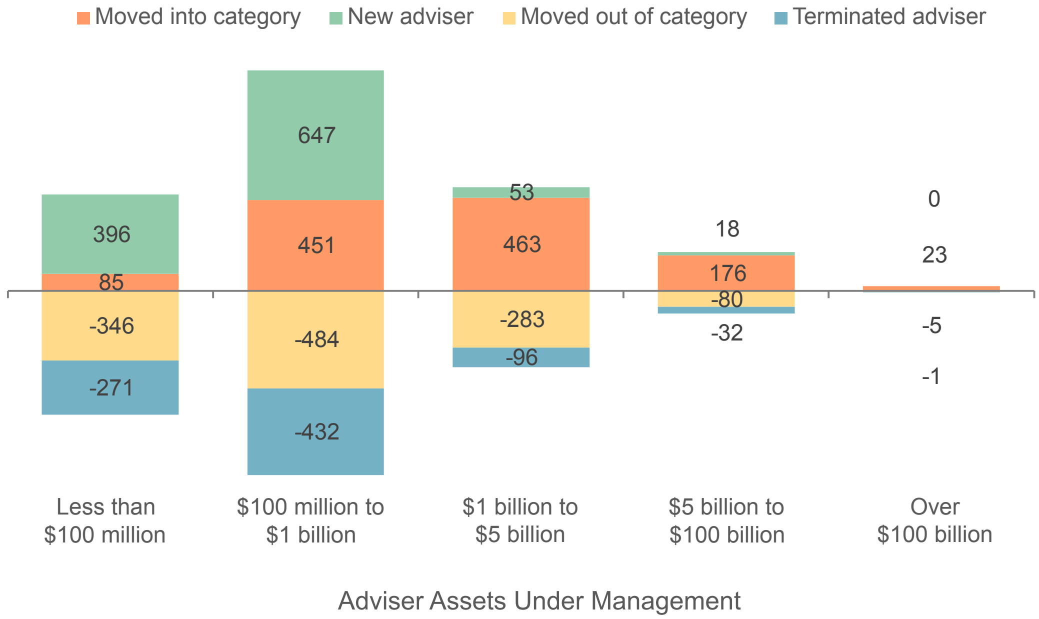
For example, in 2023, 23 firms moved into the over $100 billion category. All of these firms were in other size categories in the previous year; none were new SEC registrants. Of the 6 firms that moved out of the category, 5 firms moved into a smaller size category, while 1 was acquired and terminated SEC registration.

Note that, for purposes of the Regulatory Flexibility Act, the SEC defines a small investment adviser as one with less than $25 million in assets under management. Under this definition, very few SEC registered advisers are considered small because the minimum asset threshold for SEC registration is $100 million.

FIGURE 1K

New SEC Registrants Are Likely To Be Small

Number of Firms, 2023



The Investment Adviser Association has been advocating for a definition that would require the SEC to assess more realistically the economic impact of its regulations on the small advisers that provide important services to individual investors. To learn more about the IAA's advocacy on this issue, visit www.investmentadviser.org.

Overall, the data highlights that most advisers are quite small, although there are a few very large advisers. For example, while over half of advisers have just 1 office, and 90% of advisers have no more than 5 offices, the adviser with the largest number of offices has 17,454 of them.

TABLE 1C

Most SEC Registered Advisers Are Small Businesses

2023

	Median	Top Quartile	Top Decile	Average	Range
Number of employees	8	21	66	65	0 to 35,841
Assets under management	$403.5 million	$1.5 billion	$6.5 billion	$8.3 billion	$0 to $7.9 trillion
Number of clients:					
Individuals	67	321	886	3,493	0 to 7.4 million
Pooled vehicles	0	4	15	8	0 to 2,332
Institutions	0	11	507	184	0 to 821,873
Number of offices	1	2	5	9	1 to 17,454

Note: When advisers report that they have no employees, it is likely that employees are shared with, and technically employed by, an affiliate of the firm.

2 Clients

The number of asset management clients of SEC registered investment advisers grew 4.4% in 2023, reaching a record high.

In 2023, investment advisers served

64.1 million

clients, including 56.7 million asset management clients.

63.0%

of advisers provided asset management services for individuals.

IN BRIEF

Investor demand for asset management services continued to grow in 2023. The number of asset management clients increased by 4.4%, reaching a record high of 56.7 million. On the other hand, the number of non-asset management clients declined for the second year in a row. Despite the decline in non-asset management clients, the total number of clients increased by 3.5% in 2023, to 64.1 million.

Growth in the number of clients has been very strong over the longer term, with an average annual increase of 8.5% over the past 6 years.

Advisers serve a broad range of clients in 3 groups: individuals, pooled vehicles, and institutions. Over the past 6 years, growth in both the number of clients and assets under management have been strong in all 3 groups, but growth in the individual client group has been especially strong for both non-high net worth and high net worth 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.

A Growing Client Base

Investor demand for asset management services continued to grow in 2023. The number of asset management clients increased by 4.4%, reaching a record high of 56.7 million.

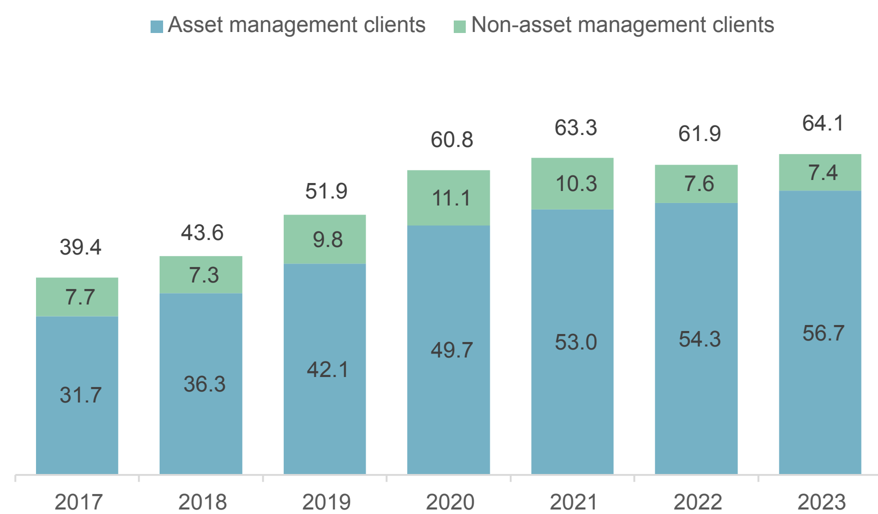
However, the number of non-asset management clients declined for the second year in a row. These clients do not use asset management services but receive other types of advisory services, such as financial planning advice. The number of these clients fell to 7.4 million, a decrease of 3.6%. One factor affecting the number of non-asset management clients is that advisers have been refining their criteria for including accounts in this category. For example, advisers may now require that individuals with an online account be actively paying fees before they are considered a client.

Despite the decline in non-asset management clients, the total number of clients increased by 3.5% in 2023, to 64.1 million. Growth in the number of clients has been very strong over the longer term, with an average annual increase of 8.5% over the past 6 years.

FIGURE 2A

The Number of Asset Management Clients Reached a Record High in 2023

Number of Clients, Millions



Advisory Services Offered to Clients

The primary service offered by investment advisers is portfolio management. In 2023, 97.4% of advisers offered portfolio management services.

However, 60.9% of advisers offered other advisory services to their clients as well.

The most common of these services is financial planning, which was offered by 44.3% of advisers in 2023, versus 43.5% in the prior year. The number of financial planning clients rose in 2023, to 4.1 million from 3.8 million in 2022, a 6.9% increase.

After financial planning, the most common additional services offered by investment advisers are advice on the selection of other advisers and pension consulting. Both were offered by over 20% of advisers in 2023.

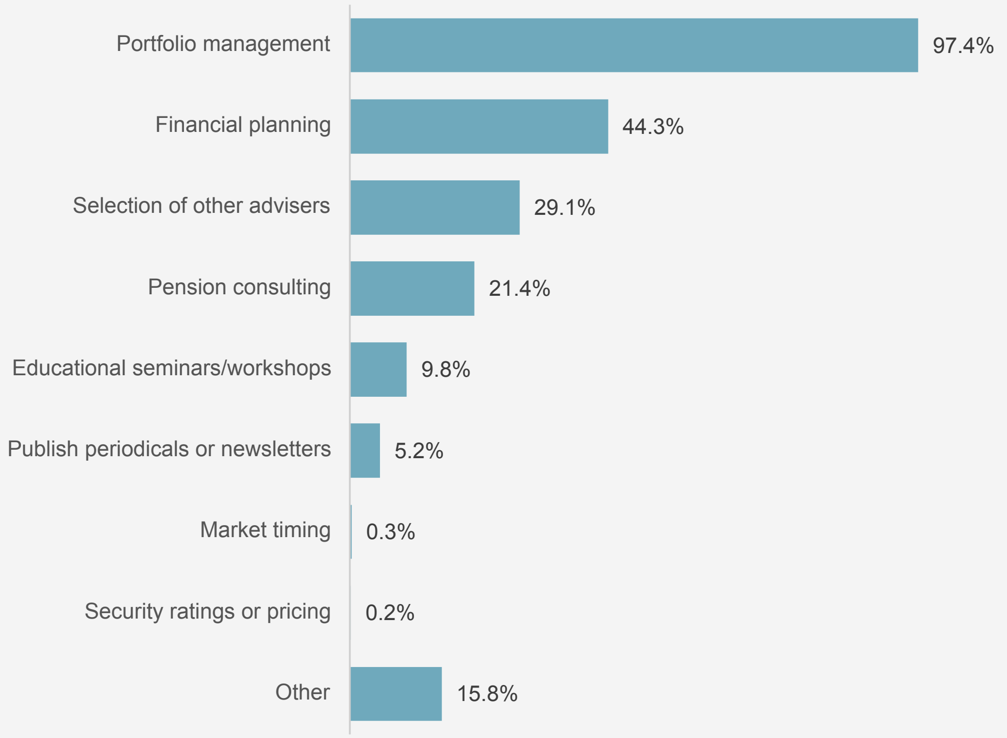
In addition, 15.8% of advisers report that they offer other advisory services. The most common of these services is some form of consulting or consultation.

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

FIGURE 2B

Many Advisers Go Beyond Portfolio Management

Percentage of Advisers Offering Service, 2023



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

A Broad Range of Clients

Investment advisers serve 3 groups of clients:

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

Clients not using asset management services are not classified by client type and, therefore, are not included in this discussion. In 2023, over one-quarter of advisers (26.0%) had at least one client not using asset management services, and 84 advisers served non-asset management clients exclusively. Looking at the largest firms in this category, 15 firms served over 100,000 non-asset management clients, which were roughly three-quarters of the clients of this type.

In 2023, individuals were the largest client group when measured by number of clients (53.8 million).

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

FIGURE 2C

Individuals Are the Largest Client Group by Number of Clients

Number of Clients, Thousands, 2023

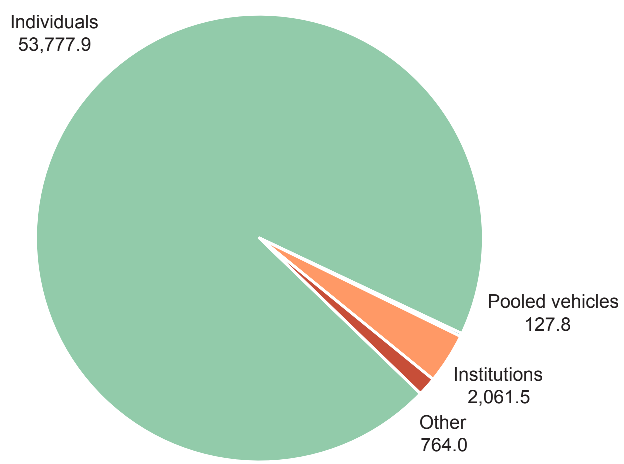
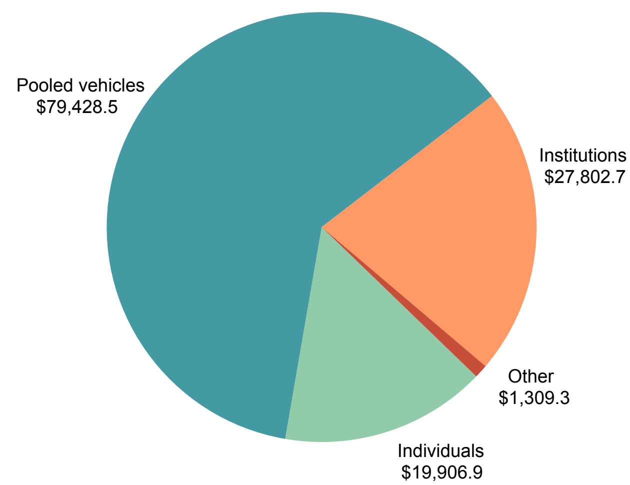


FIGURE 2D

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

Assets Under Management, $ Billions, 2023



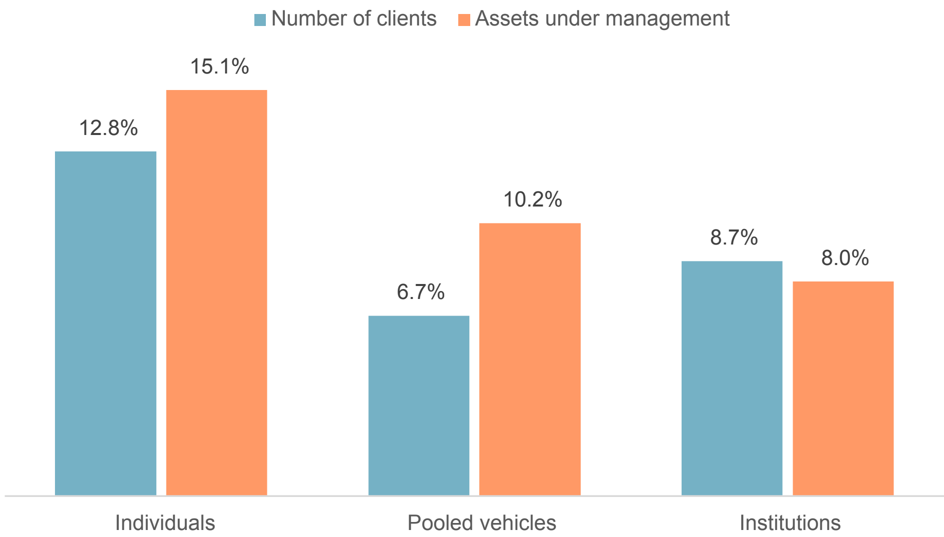
Pooled vehicles were the largest group when measured by assets under management, with $79.4 trillion in assets or 61.8% of the industry total. Even though a pooled vehicle serves multiple investors, each pooled vehicle counts as only 1 client in this analysis; as a result, the number of pooled vehicle clients is small.

Over the past 6 years, growth in both the number of clients and assets under management has been strong in all 3 groups. Growth in the individual client group has been especially strong for both non-high net worth and high net worth clients. This growth is likely the result of increased recognition of the value of fiduciary advice. At the same time, the proliferation of digital advice platforms has made it easier for individuals to access that advice (see "An Increasingly Digital Industry" below).

FIGURE 2E

Growth in the Individual Client Group Has Been Especially Strong

Annualized Percentage Growth, 6 Years Ended 2023



Of the 3 client groups, advisers are most likely to have individual clients. In 2023, 63.0% of advisers served individual clients, with 56.1% serving non-high net worth individuals.

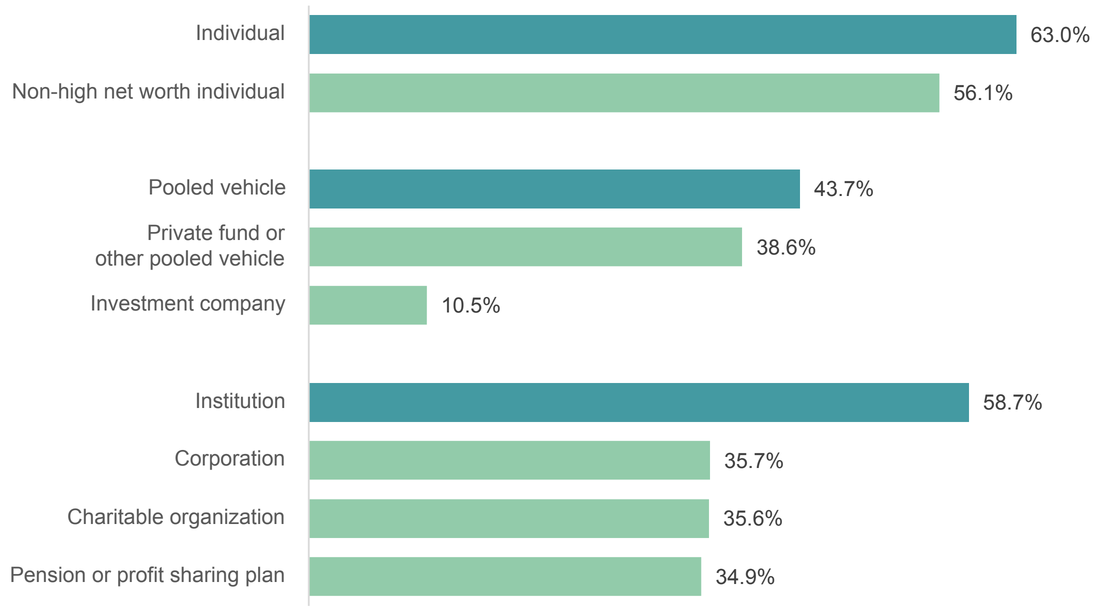
After individual clients, advisers were most likely to have institutional clients. The 3 most common types of institutional clients are corporations, charitable organizations, and pension and profit sharing plans, with over one-third of advisers providing services to each of these client types.

Advisers are least likely to have pooled vehicles as clients. Only 10.5% of advisers have an investment company as a client.

FIGURE 2F

Percentage of Advisers With Client Type

2023



Individuals

In 2023, investment advisers provided asset management services to 53.8 million individual investors.

The bulk of these clients (85.3%) were non-high net worth individuals. Non-high net worth clients are generally individuals with less than $1.1 million in assets under management with an adviser or with a net worth of less than $2.2 million, excluding the value of a primary residence.*

On the other hand, 64.3% of the assets managed for clients in this group were from the 14.7% of individual investor clients who were high net worth individuals.

FIGURE 2G

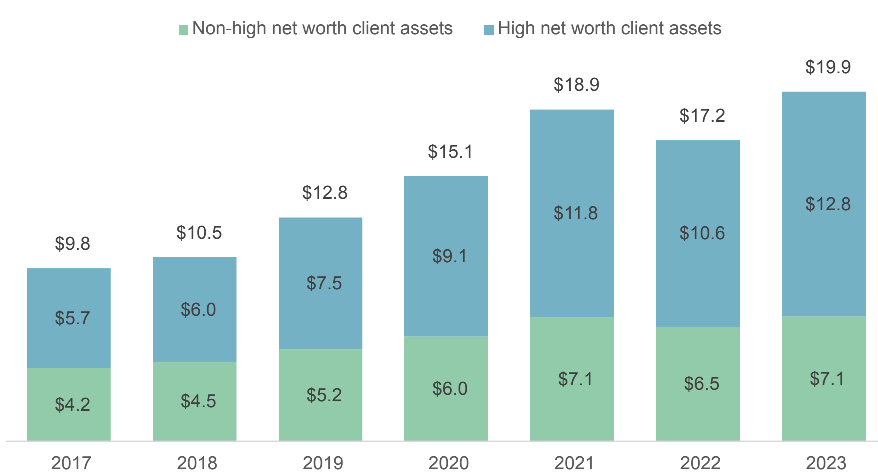
Non-High Net Worth Individuals Are the Largest Client Type in Terms of Numbers . . .

Number of Clients, Millions

FIGURE 2H

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

Assets, $ Trillions



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

A Look at State Advisers

While this report focuses on SEC registered investment advisers, advisers that have filed with state regulators play a critical role in the industry.

In 2023, there were 16,296 advisers registered with state authorities (rather than the SEC) and 3,940 state exempt reporting advisers that file Form ADV.

Individual investors are particularly important to state registered advisers. These advisers managed assets for over 830,000 individuals, located almost entirely in the United States. Individual clients accounted for more than 97% of the advisers' total clients, and nearly 90% of the advisers' $417.1 billion in assets under management.

Two-thirds of state registered advisers offer financial planning services; almost all of these advisers offer hourly or fixed fees, which are often charged for financial planning work. In total, state registered advisers have an estimated 285,000 financial planning clients. They also have over 218,000 clients that use services other than asset management.

In addition to their focus on individual investors, the most notable feature of state registered advisers is that they are quite small. On average, a state registered adviser has 2 non-clerical employees, 52 clients, and $26 million in assets under management.

Employment, client, and asset data is not available for state exempt reporting advisers. However, there is information about their organizational structure.

Looking at state registered and state exempt reporting advisers together, nearly three-quarters are organized as limited liability companies, and nearly all are based in the United States. These advisers generally provide investment advice as standalone entities: nearly three-quarters report having no other business activity, while nearly two-thirds have no financial industry affiliations.

Pooled Funds

The pooled fund group includes:

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

In 2023, investment advisers provided asset management services to 127,783 pooled funds with $79.4 trillion in assets. Private funds and other pooled funds were the most common client type in this group, while investment companies accounted for over half of assets.

FIGURE 2I

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

Number of Clients

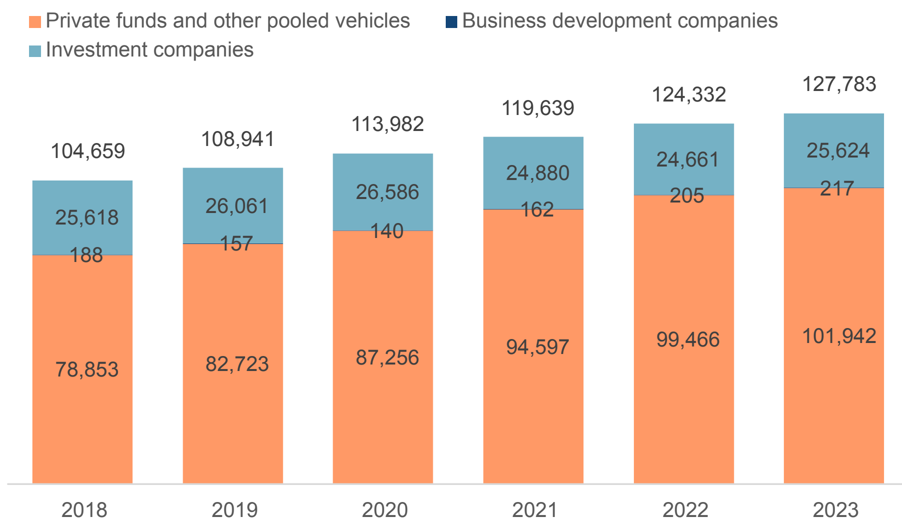
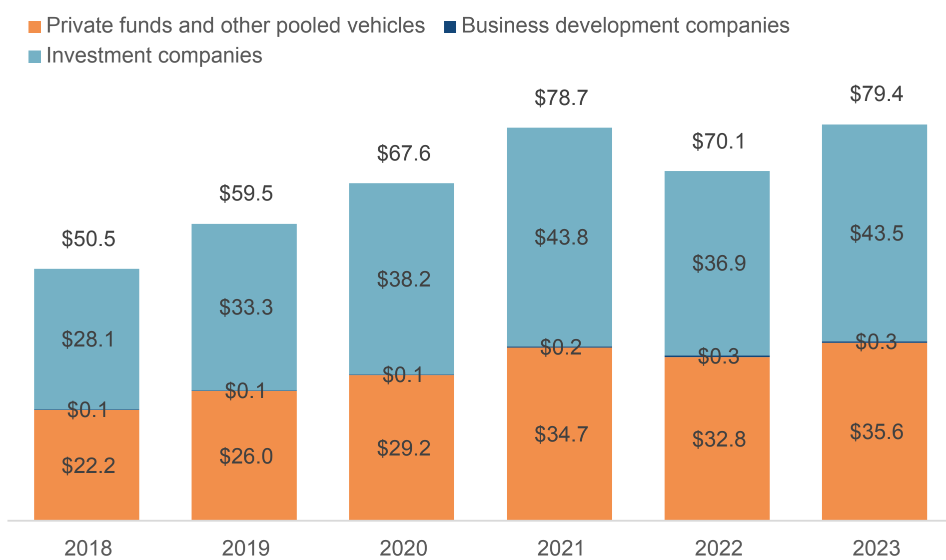


FIGURE 2J

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

Assets, $ Trillions



Communicating with Clients

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

The number of advisers using multiple websites or social media platforms rose to 65.2% of advisers, from 49.1% in 2018. A small number of firms (193 or 1.3%) have 20 or more websites, with one firm reporting 2,337 sites. Advisers with large numbers of websites often describe themselves as "networks of independent wealth management firms," each of which operates its own website.

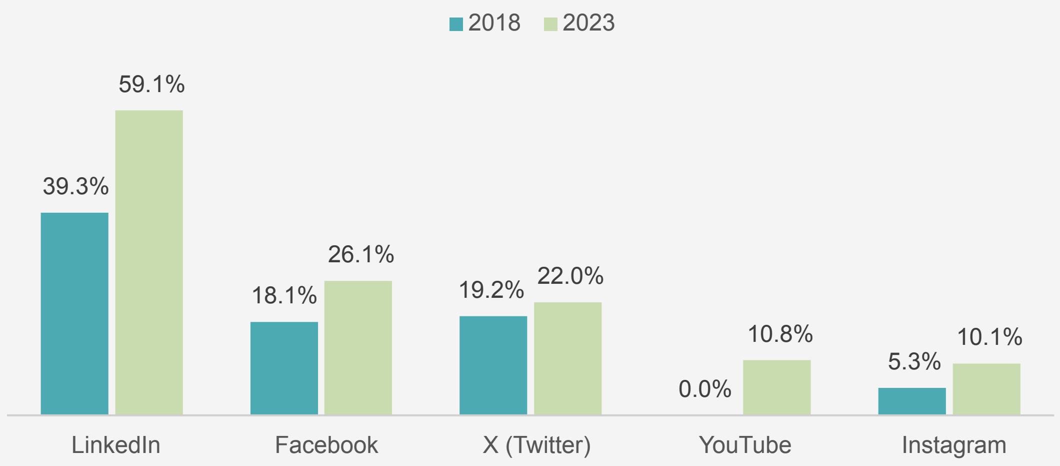
Social media use continued to increase in 2023. Among the social media platforms, LinkedIn was most likely to be used by advisers, followed by Facebook and X, formerly known as Twitter.

Only 9.0% of advisers reported no online presence in 2023. For comparison, in 2018, 11.6% of advisers reported no online presence.

FIGURE 2K

Advisers' Social Media Use Continues to Climb

Percentage of Advisers With Presence on Platform



Note: Most commonly used social media platforms.

Institutions

The institutional client group includes:

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

Other investment advisers account for 42.3% of the clients in this group. In these client 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 other investment adviser clients are clients of a single adviser that provides services to retirement plans, including model portfolios and asset allocation services.

The number of other investment adviser clients declined again in 2023 for the third year in a row, partly reversing strong growth in 2019 and 2020.

The second most common client type in the institutional group is pension and profit sharing plans, accounting for nearly one-third of clients. The number of pension and profit sharing clients experienced another strong increase in 2023. Longer-term growth has been strong, with an average annual increase of 13.3% over the past 6 years.

Corporations and other businesses ranked third in the institutional group, though the number of corporate clients declined in 2023 for the second year in a row.

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

Sovereign wealth funds and other foreign official institutions are the largest institutional clients, with average assets of approximately $1.1 billion. Insurance companies are second largest, with average assets of over $560 million.

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

FIGURE 2L

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

Number of Clients, Thousands, 2023

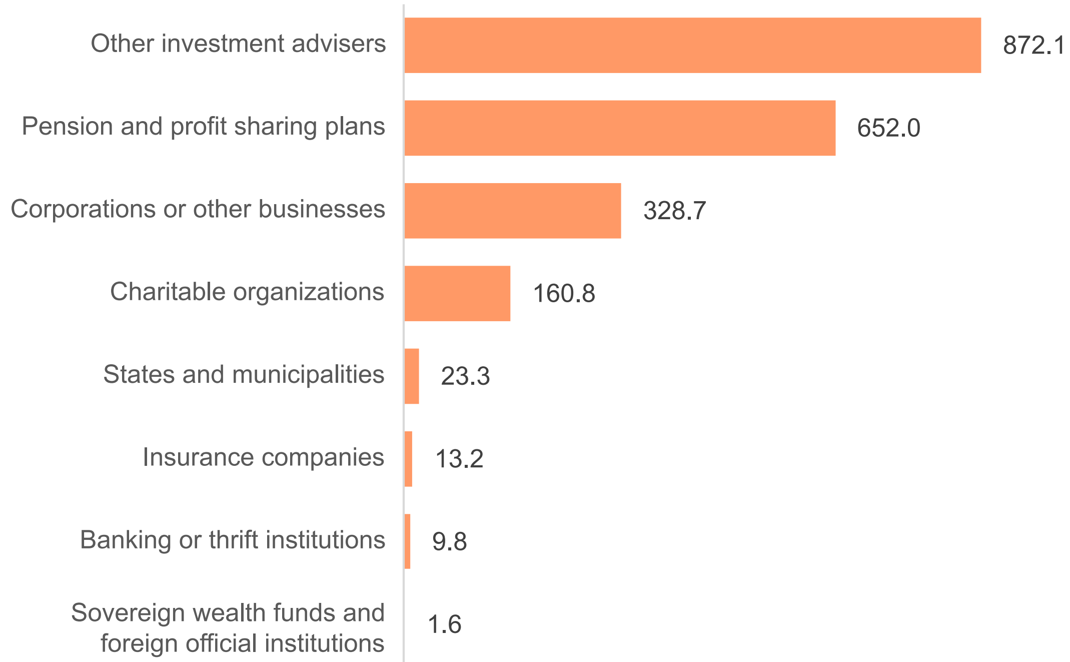
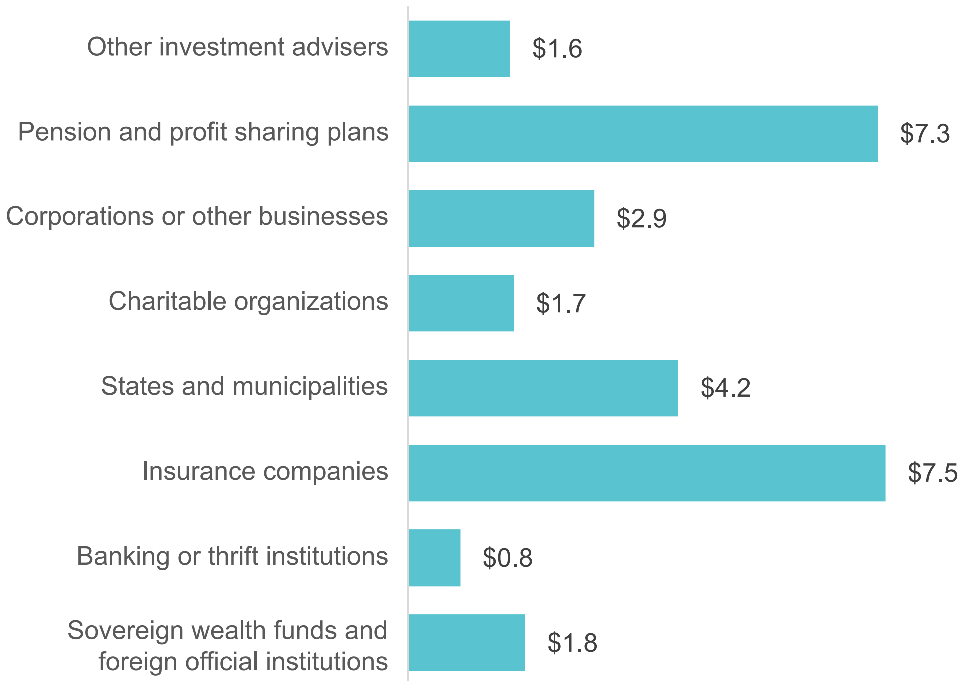


FIGURE 2M

. . . As Are Institutional Client Assets

Assets, $ Trillions, 2023



An Increasingly Digital Industry

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

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

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

In 2023, 239 advisers filed Form ADV using the internet adviser exemption. These firms are small: they managed a total of $20.2 billion in assets, and 113 managed no assets at all. Note that, in 2023, the SEC tightened the eligibility requirements for the internet adviser exemption, which will likely reduce the number of firms that take advantage of it.

But the presence of digital advice in the industry goes far beyond these 239 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.

A Global Industry

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

In 2023, 38.0% of advisers reported that they had non-U.S. clients or assets from non-U.S. sources. Assets from non-U.S. sources were $30.1 trillion or nearly one-quarter of total industry assets.

For these advisers, 33.3% of clients and 27.1% of assets were sourced outside the United States in 2023. A small number of advisers (631 or 4.1%) have exclusively non-U.S. clients or assets.

Advisers to private funds are particularly likely to have non-U.S. clients or assets (60.4% of private fund advisers).

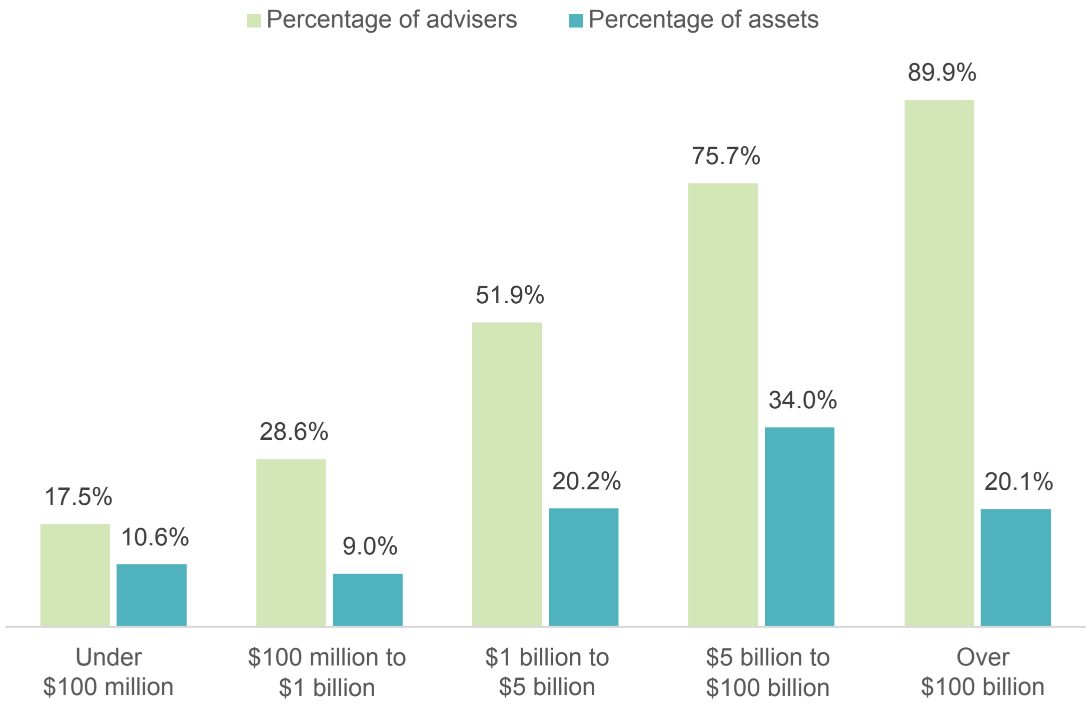
Non-U.S. assets as a percentage of total assets are significant for firms in all size categories, but especially for firms in the $5 billion to $100 billion range. This may result from the higher-than-average representation of private funds in this size range.

Note that, in addition to U.S.-based advisers that manage assets for non-U.S. clients, there are 818 SEC registered and 2,205 SEC exempt reporting advisers based outside the United States that provide services to U.S. clients.

FIGURE 2N

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

Percentage of Advisers With Non-U.S. Clients, Percentage of Assets From Non-U.S. Sources, 2023



A Broad Range of Firms

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

For example, advisers that manage money primarily for individuals are likely to be small businesses with, on average, 9 employees, 2 offices, and $364.6 million in assets under management (33.8% of advisers).

On the other hand, advisers with pooled vehicle clients and at least 10 institutional clients tend to be large, with an average of 250 employees, 16 offices, and $53.6 billion in assets under management (8.0% of advisers).

In 2023, over 90% of advisers fell into one of the following 4 categories in terms of client focus:

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

TABLE 2A

Adviser Profile Varies With Client Profile

2023

Pooled Vehicles and Institutions

(Average for 1,223 firms)

- $53.6 billion assets under management
- 250 employees
- 16 offices
- 12,401 individual clients (71.4% of the firms in this category have individual clients)
- 48 pooled vehicle clients
- 885 institutional clients

Individuals and Institutions

(Average for 2,287 firms)

- $5.5 billion assets under management
- 152 employees
- 43 offices
- 10,701 individual clients
- 618 institutional clients

Pooled Vehicles Focus

(Average for 5,209 firms)

- $8.0 billion assets under management
- 46 employees
- 2 offices
- 3 individual clients
- 12 pooled vehicle clients
- 1 institutional client

Individuals Focus

(Average for 5,207 firms)

- $364.6 million assets under management
- 8 employees
- 2 offices
- 2,581 individual clients
- 2 institutional clients

Notes: Criteria for categorization:

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

In 2023, 90.5% of advisers were included in 1 of these 4 categories.

Is There a "Typical" Adviser?

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

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

68% of advisers

manage **$1 billion or less** in assets with

50 or fewer non-clerical employees.

The average adviser in this group manages assets for:

383 individual clients,

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

14 institutional clients.

On average, this group of advisers has:

7 employees and

$305 million in assets under management.

---

3 Employees

Employment in the industry reached a record high in 2023.

In 2023, the number of employees at SEC registered investment advisers grew by

3.6%

to reach

1,006,471

non-clerical staff.

IN BRIEF

In 2023, employment in the investment adviser industry grew by 3.6% to reach a record high of 1,006,471 non-clerical staff. Employment growth has been strongest in firms with more than $100 billion in assets.

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

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

Most investment advisers have only 1 or 2 offices.

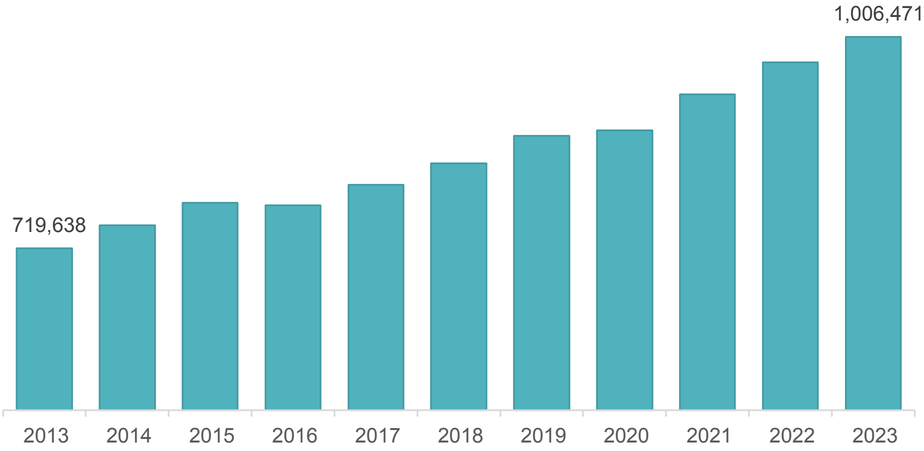
A Growing Employer

In 2023, employment in the investment adviser industry reached a record high. The industry added 34,984 jobs (an increase of 3.6%) to reach total non-clerical employment of 1,006,471.

This was the seventh consecutive year of increases in the number of jobs in the industry. Job gains since 2013 have averaged 3.4% annually.

FIGURE 3A

The Number of Non-Clerical Employees Reached a Record High in 2023



Over half of employees perform investment advisory functions.

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

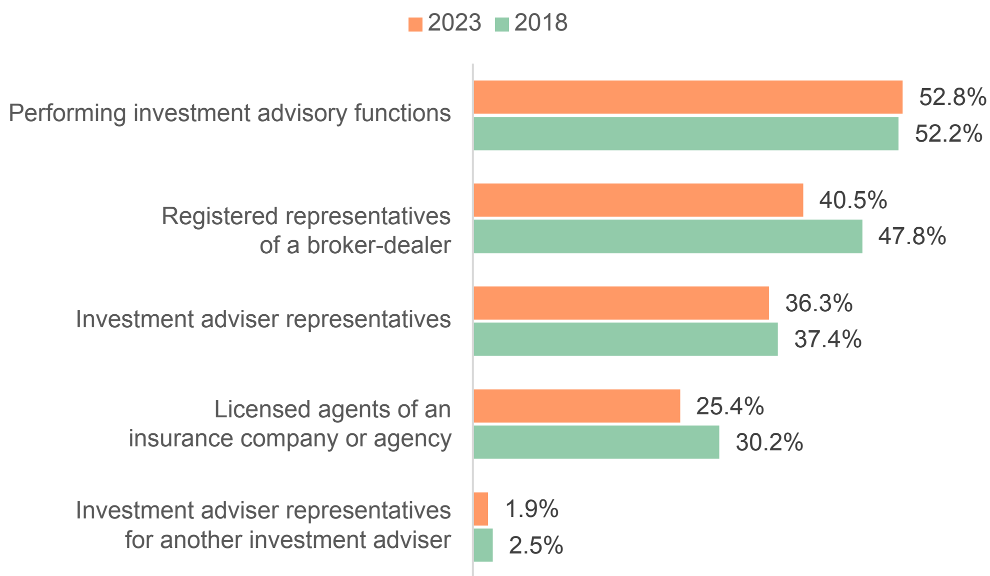
The percentages of employees licensed as brokerage firm registered representatives or insurance agents have declined significantly over the past 5 years. However, the absolute number of registered representatives increased over the period.

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

FIGURE 3B

The Majority of Employees Are Involved in Providing Investment Advice

Percentage of Non-Clerical Employees



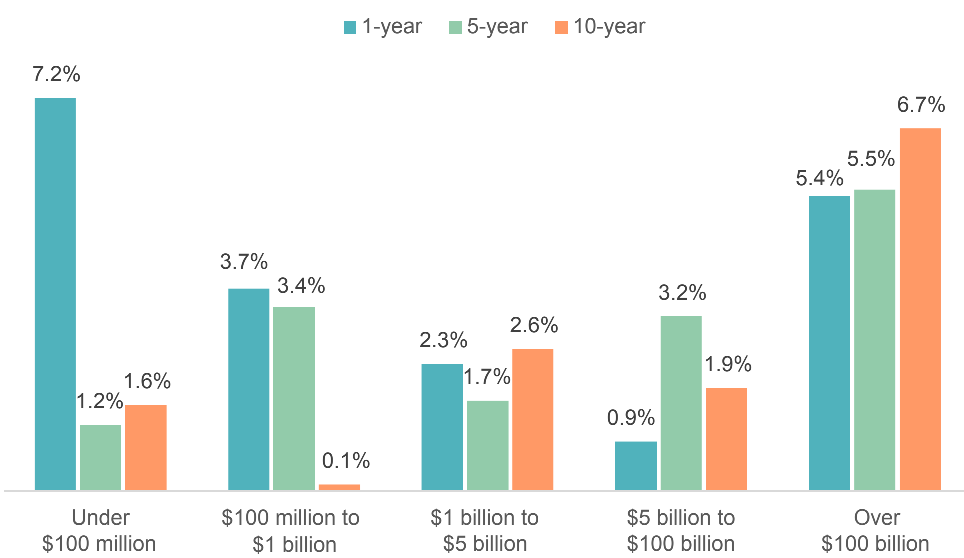
Over the longer term, growth in employment has been strongest at the largest firms. Since 2013, non-clerical employment rose 6.7% annually at firms with over $100 billion in assets under management.

Note that over half of the employees in the under $100 million category are at a single firm that is dual registered with the SEC as an investment adviser and a brokerage firm. This firm reports no assets under management but is affiliated with another adviser managing over $1 trillion.

FIGURE 3C

Employment Growth Has Been Strongest at the Largest Firms . . .

Annualized Change in Number of Non-Clerical Employees, Periods Ended 2023



However, a breakdown of the changes in employment shows that a significant proportion of the employment growth at the largest advisers is the result of firms moving into the category.

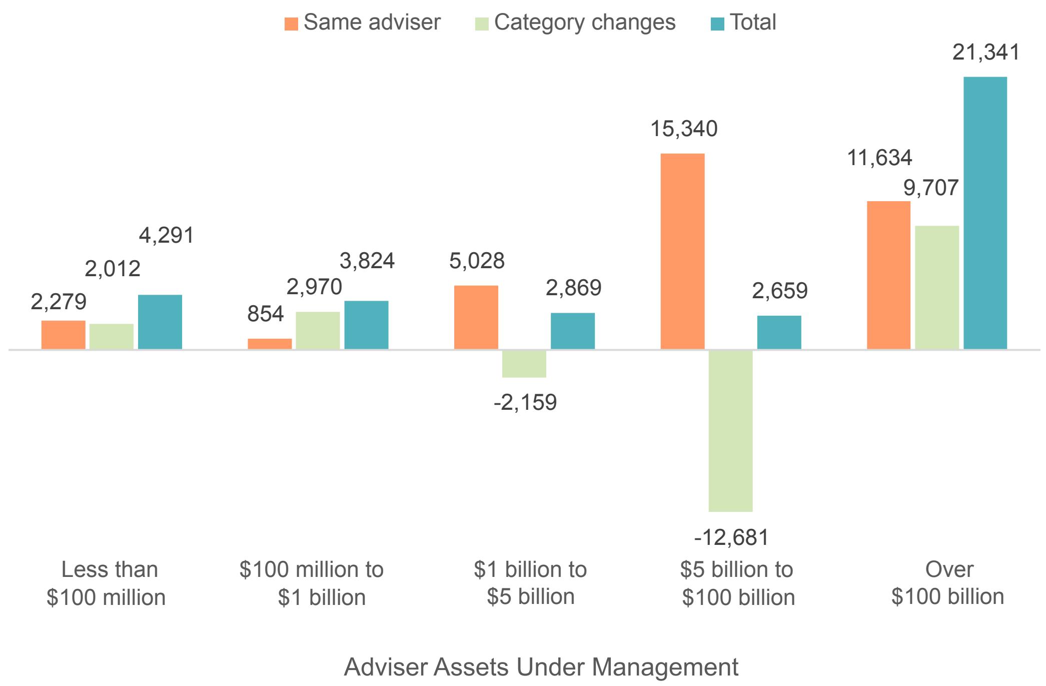
Figure 3D divides changes in employment in each size category into "same adviser" change and "category" change. "Same adviser" change is the net change in employment at advisers that were in the same size category in the previous year. "Category" change is the net change in employment in that category due to advisers moving in or out of the category.

This analysis shows that roughly half of the increase in the number of jobs at employers with over $100 billion in assets under management (11,634 of 21,341 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.

FIGURE 3D

. . . But Advisers Moving Into the Category Contributed to That Growth

Breakdown of Change in the Number of Non-Clerical Employees, 2023



A Wide Geographic Scope

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

This data includes SEC exempt reporting advisers (ERAs) and state registered and ERAs in addition to SEC registered advisers.

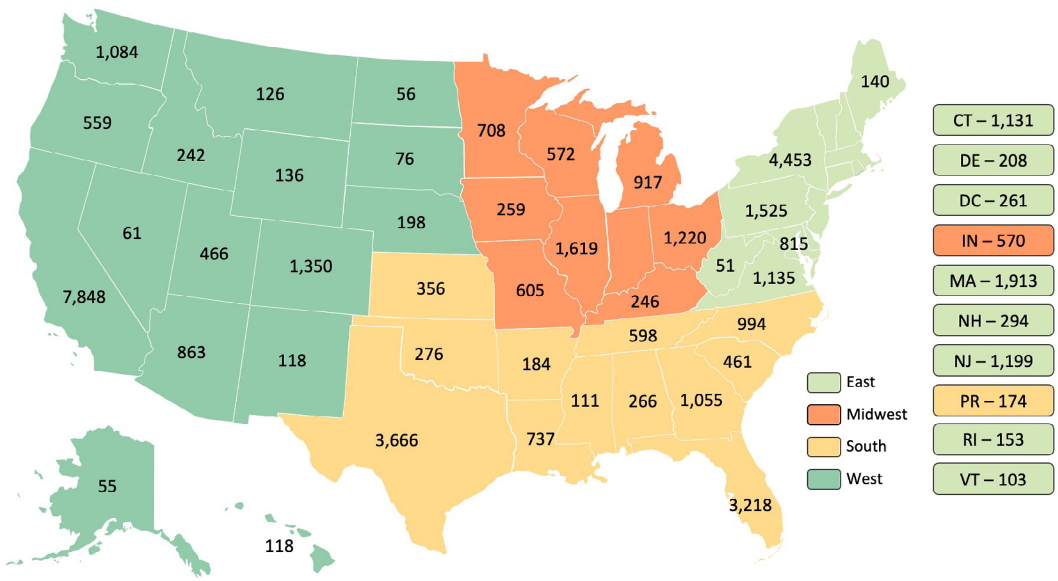
State registered and ERAs may have more than one state registration, though three-quarters have only a single registration. (While one adviser has 39 state registrations, 90% of state advisers have 2 or fewer.) This data includes all registrations for state advisers.

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

FIGURE 3E

A National Industry

Number of Investment Advisers, 2023



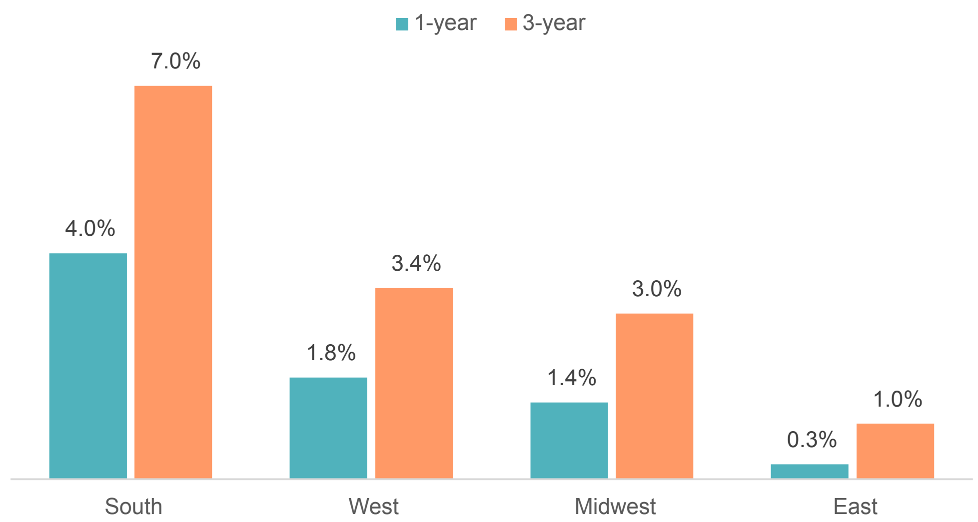
Note: Includes SEC and state registered and ERAs. Address for SEC advisers; registration(s) for state advisers.

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

FIGURE 3F

Growth Has Been Strongest in the South

Annualized Change in Number of SEC Registered Advisers, Periods Ended 2023

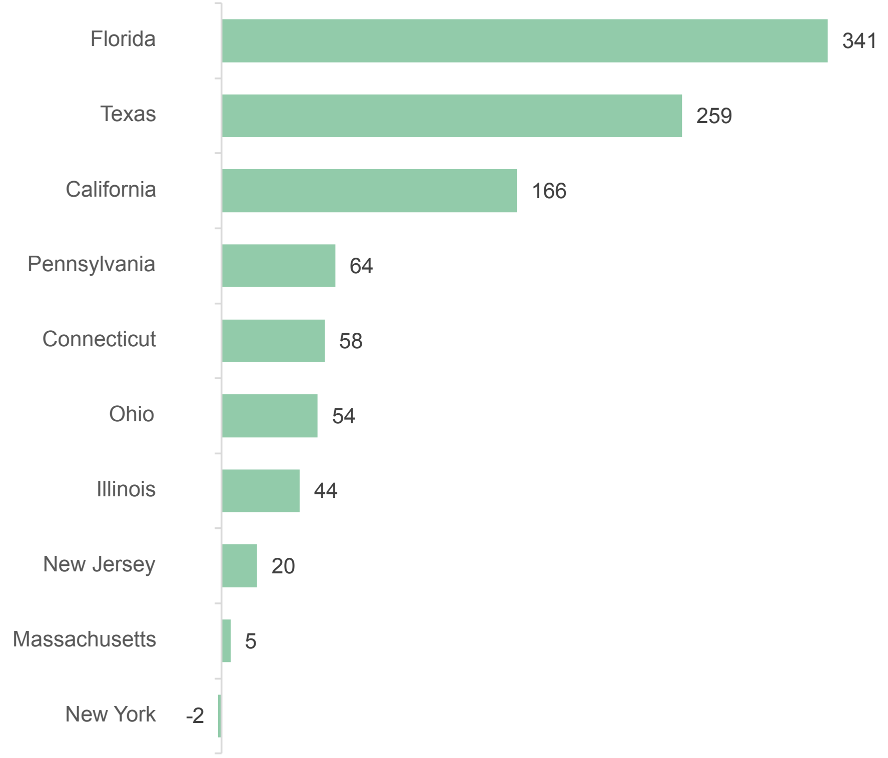


More granularly, growth in the industry has been focused in states that have not been traditional financial centers, such as Florida and Texas. The number of SEC registered advisers in these states grew significantly over the past 5 years.

FIGURE 3G

Growth Has Shifted Away From Traditional Financial Centers

Change in Number of Advisers, States with Largest Number of SEC Registered Advisers, 2023 versus 2018



While most advisers are based in the United States, 818 SEC registered advisers are located in other countries (5.3% of advisers). The number of advisers based outside the United States decreased for the third year in a row in 2023. Approximately half of these advisers are based in either the United Kingdom or Canada.

SEC ERAs are likely to be domiciled outside the United States. In 2023, over half of ERAs were non-U.S. based. The most common domiciles were the United Kingdom, Hong Kong, the Cayman Islands, Singapore, and Canada, in that order; combined, these domiciles were home for 40.9% of the non-U.S. ERAs.

Offices

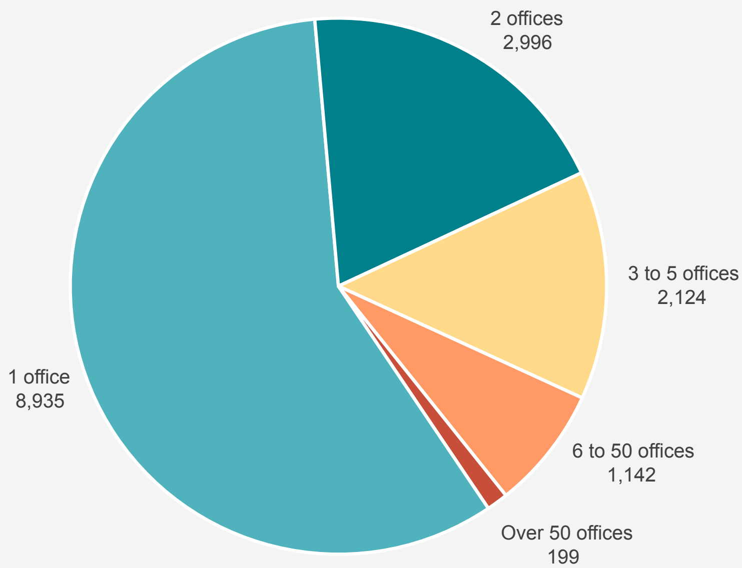
The majority of SEC registered investment advisers operate from a single office. In 2023, 77.5% of advisers had only 1 or 2 offices.

In 2023, 8.1% of advisers had 6 or more offices, with just 1.3% having over 50 offices. There are 5 advisers with over 3,000 offices each; all 5 of these advisers are dual registered with the SEC as both an investment adviser and a brokerage firm.

FIGURE 3H

The Majority of SEC Registered Investment Advisers Operate From a Single Office

Number of Advisers by Number of Offices, 2023

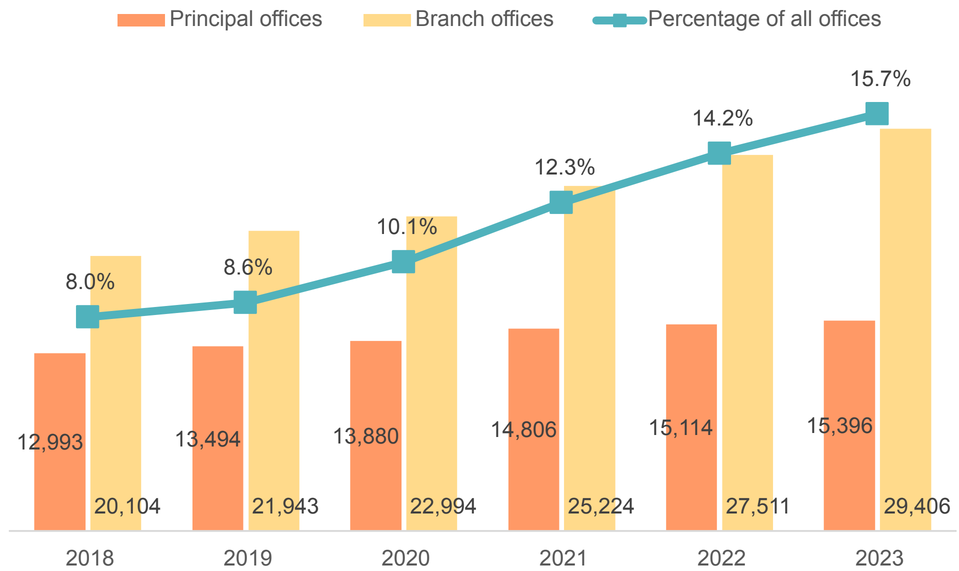


In a trend that accelerated with the pandemic, more SEC registered advisers are reporting offices located in private residences. Under SEC guidance issued during the pandemic, if employees are working remotely, the remote locations generally do not need to be reported as offices on Form ADV, as long as the firm maintains a physical office. However, a second year of strong growth in 2023 in the number of offices located in private residences suggests that many advisers are transitioning to a permanently remote or hybrid model.

FIGURE 3I

Adviser Offices Are Increasingly Located in Private Residences

Number of Offices Located in Private Residences



Appendix | Investment Adviser Representatives

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

Investment advisory firms initiate the registration process by filing Form U4 with FINRA. The data in these forms provides an overview of the IAR community. All data in this section is from forms on file with FINRA on January 3, 2024.

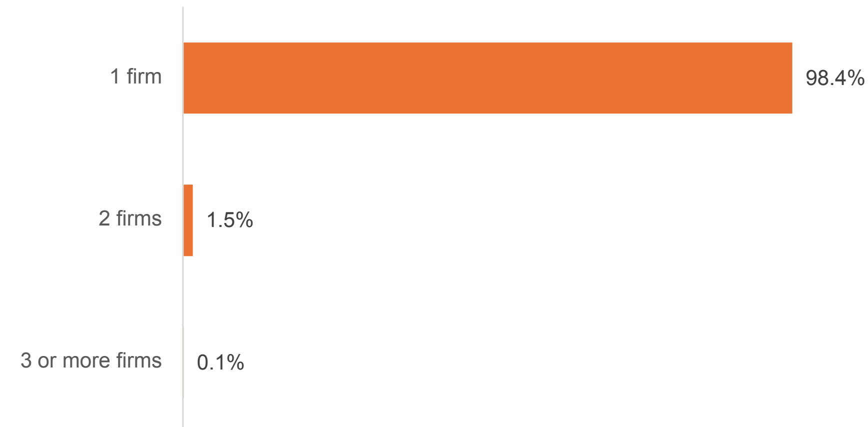
SEC registered and state registered investment advisers employed over 401,000 IARs at year-end 2023.

Most IARs are affiliated with only one advisory firm each.

FIGURE 3J

Virtually All IARs Work for a Single Firm Each

Percentage of IARs, 2023

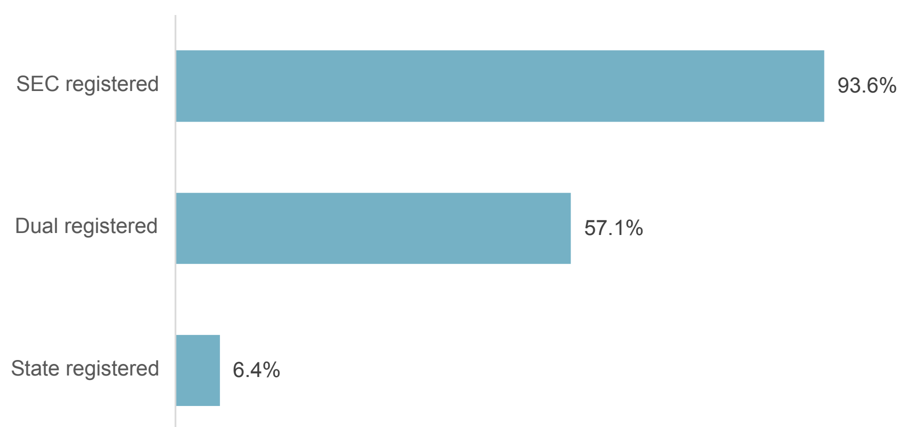


Most IARs are affiliated with SEC registered advisers: 93.6% of employment relationships are with SEC registered firms. More than half of employment relationships are with firms that are dual registered with the SEC as both an investment adviser and a brokerage firm.

FIGURE 3K

More Than Half of IARs Are Affiliated With a Dual Registered Firm

Percentage of Employment Relationships, 2023

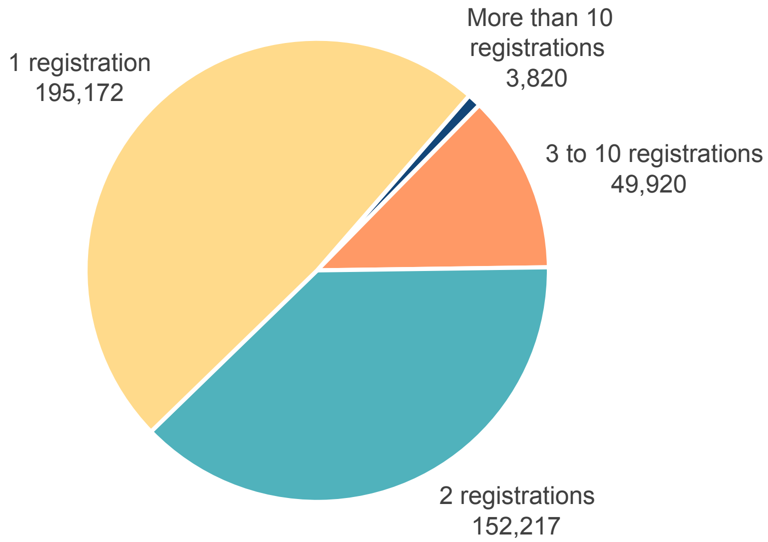


Half of IARs are registered with more than one state. On average, an IAR has 2 state registrations.

FIGURE 3L

Half of IARs Are Registered in More Than One State

Number of IARs, 2023



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

- 15.8% of IAR registrations are in Texas. For comparison, only 8.0% of investment advisers have their principal office in the state.
- Just 8.7% of IARs are registered in California, even though 17.1% of advisers are headquartered there.

With regard to qualifying exams:

- 55.2% of IARs have taken the Uniform Securities Agent State Law Exam (Series 63)
- 53.0% have taken the Uniform Combined State Law Exam (Series 66)
- 38.6% have taken the Uniform Investment Adviser Law Exam (Series 65)
- 97.3% have taken at least one exam

Some IARs hold additional designations. Notably:

- 12.6% are Certified Financial Planners
- 3.0% are Certified Financial Consultants
- 2.7% are Chartered Financial Analysts

*Excludes IARs with restricted/limited registration status.

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

Most IARs make no disclosures (84.4%). Of the IARs making a disclosure, 86.5% report an issue in only one category.

Over half of disclosures arise from consumer complaints.

TABLE 3A

Consumer Complaints Are the Most Common Type of Disclosure

Disclosure Type	***% of IARs***
Consumer-initiated complaint, arbitration, or civil litigation	10.5%
Filed for bankruptcy	1.8%
Criminal conviction	1.8%
Employment terminated	1.5%
Regulatory action	1.5%
Unsatisfied judgments or liens	0.9%

4 Compensation

Adviser compensation structures align adviser interests with client interests.

95.3%

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

49.8%

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

IN BRIEF

Almost all SEC registered advisers (95.3%) offer clients a fee based on a client's assets under management. Advisers generally offer asset-based fees in combination with other fee types, such as fixed fees, performance fees, or hourly fees.

Over the past 10 years, fixed fees and hourly fees have become more common. Advisers that offer financial planning services are likely to charge fixed or hourly fees (over 85% of advisers offering these services).

Adviser interest and participation in many client-related transactions have declined over the past 10 years. The percentage of advisers receiving soft dollar research reached a new low in 2023 (35.5% of advisers). Advisers are less likely to recommend proprietary products. Advisers are also less likely to engage in transactions involving affiliated brokerage firms, partly because they are less likely to be affiliated with a brokerage firm.

Alignment With Client Interests

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

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

TABLE 4A

Asset-Based Fees Are the Most Common Form of Compensation

Percentage of SEC Registered Advisers Receiving Fee Type, 2023

Fee Type	% of Advisers
Based on assets under management	95.3%
Fixed	45.2%
Performance	36.3%
Hourly	29.2%
Other	14.5%
Commissions	2.1%
Subscription	1.1%

However, only 17.1% of advisers are compensated through fees based on assets under management alone. Most advisers offer asset-based fees along with other types of fees, such as fixed fees, hourly fees, and performance fees.

Most commonly, advisers earn fixed fees and/or hourly fees in addition to asset-based fees, which are typically charged for portfolio management services (34.3% of advisers). Fixed or hourly fees are often charged for discrete, one-time services such as the development of a financial plan.

The second most common fee combination is an asset-based fee together with a performance fee (24.0% of advisers). This compensation arrangement is particularly common in private funds; in 2023, 58.4% of advisers managing private funds were compensated only through asset-based fees and performance fees.

Only 4.7% of advisers do not charge a fee based on assets under management. While this is a small group of firms, they account for almost one-quarter of the industry's non-asset management clients and nearly one-fifth of the industry's clients overall.

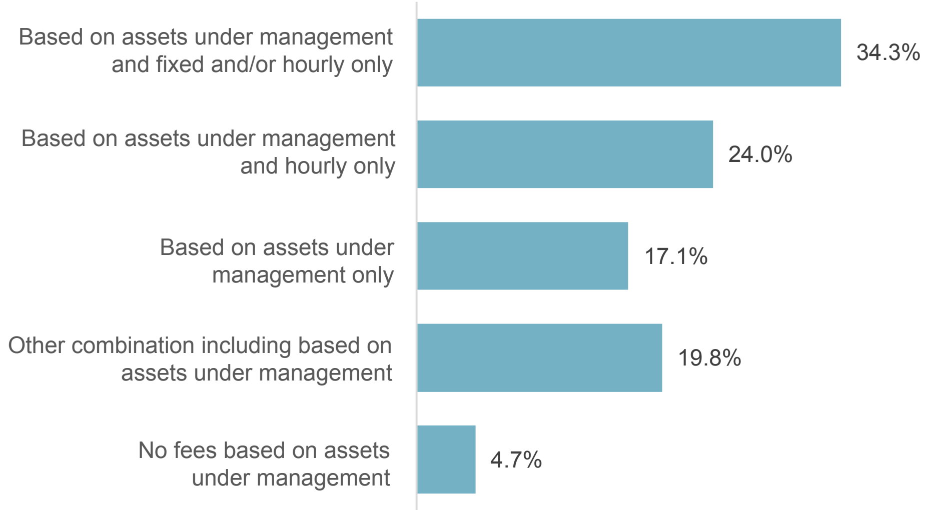
Of the firms that don't charge an asset-based fee, over half charge a fixed fee or a subscription fee. Some of the largest digital advice platforms charge fixed or subscription fees, but not asset-based fees.

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

FIGURE 4A

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

Percentage of SEC Registered Advisers Offering Fee Type, 2023



Looking at trends over time, over the past 10 years, fixed fees and hourly fees have become more common (+3.7% and +1.1% as a percentage of advisers, respectively). In 2023, approximately half of advisers (49.8%) – and over 85% of advisers offering financial planning services – received either a fixed fee or an hourly fee (or both).

By contrast, commissions have become less common (-2.9%), as have performance fees (-2.3%). While performance fees are almost universally offered by SEC registered advisers to private funds (over 85% offered one in 2023), they have become less popular with other advisers.*

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

Interest and Participation in Client Transactions

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

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

Buying or selling securities recommended to clients

Buying or selling securities recommended to clients is the most common interest or participation in non-trading transactions. In 2023, 77.3% of advisers reported that their firm, their employees, or other related parties engage in this practice, with the percentage of advisers engaging in this practice reaching a new high.

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

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

Soft dollar research

In 2023, 35.5% of advisers received soft dollar research, meaning that they used client commissions to purchase research or brokerage services. However, adviser use of soft dollar research has been declining, reaching a new low in 2023. Fewer soft dollars are available because equity commission rates have fallen (to zero in some instances). In addition, regulatory action in Europe has made the use of soft dollars more cumbersome for advisers with European clients.

Over 90% of advisers receiving soft dollar research in 2023 reported that the research is eligible for the "safe harbor" under Section 28(e) of the Exchange Act.

TABLE 4B

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

Percentage of SEC Registered Advisers

	2013	2023
Investments in Recommended Securities		
Buy or sell securities recommended to clients	75.5%	77.3%
Soft Dollar Research		
Receive soft dollar research	44.9%	35.5%
Interest in Investments Recommended to Clients		
Recommend proprietary products	25.8%	20.3%
Recommend securities underwritten by related brokerage firm	24.4%	16.4%
Sales interest in recommended investments	10.6%	8.1%

Recommend proprietary products

Advisers have also become less likely to recommend proprietary products (meaning investment vehicles that are owned or managed by the adviser or an affiliate and therefore generate revenue for the adviser or an affiliate). The percentage of advisers making these recommendations has fallen 5.5% since 2013. This trend is at least partly driven by the decline in the percentage of advisers that are affiliated with a brokerage firm, but increased regulatory focus on the sale of proprietary products likely played a role. In absolute terms, the number of advisers recommending proprietary products has increased over the past 10 years (3,124 advisers in 2023, compared to 2,811 in 2013).

Recommend securities underwritten by a related brokerage firm

The percentage of advisers that recommend securities underwritten by a related brokerage firm declined significantly over the past 10 years. This decline is likely the result of the decrease in the percentage of advisers affiliated with brokerage firms. In 2023, only 15.9% of advisers were affiliated with brokers, down from 21.3% in 2013.

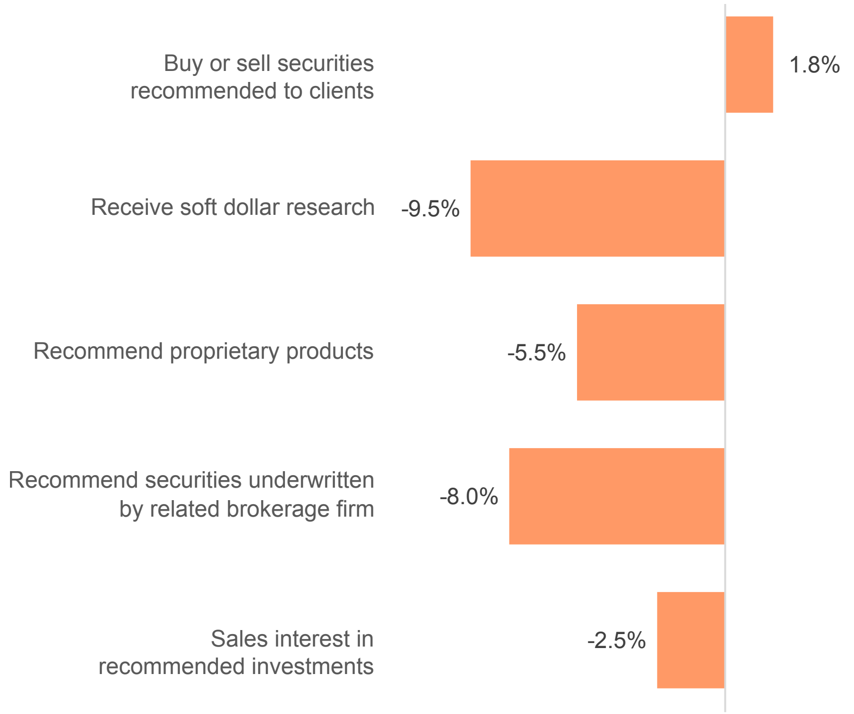
Sales interest in recommended investments

The percentage of advisers with a sales interest in recommended investments also declined, by 2.5% over the 10 years ended 2023.

FIGURE 4B

Adviser Interest and Participation in Client Transactions is Declining

Change in Percentage of SEC Registered Advisers, 10 Years Ended 2023



Note: Excludes trading-related transactions.

Interest and participation in trading transactions

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

In 2023, over 90% of advisers had discretionary authority to determine which client securities to buy and sell and in what amount. Over 90% of advisers either determined or recommended the brokerage firm to execute those buys and sells, and, of those firms, approximately 80% had the discretionary authority to determine the commission rate to be paid on those transactions. (Note that advisers reporting that they have discretionary authority over trading transactions may have that authority in some, but not all, client accounts.)

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

- Over the past 10 years, the number of advisers using or recommending affiliated brokerage firms has declined by 3.8%, reflecting the decline in the share of advisers with affiliated brokerage firms.
- In addition, the percentage of advisers with discretionary authority to determine the commission rate on client transactions has fallen sharply. The decline is likely the result of changing business models, including greater use of custodial arrangements that include predetermined commission rates or "manager of manager" investment approaches where the sub-adviser handles transactions.

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

	2013	2023
Discretionary authority to determine client securities to be bought and sold	92.2%	94.1%
Discretionary authority to determine amount of client securities to be bought and sold	92.1%	94.0%
Determine or recommend broker for client transactions	90.8%	91.1%
Discretionary authority to determine commission rate on client transactions (see note)	87.4%	79.1%
Engage in principal transactions with clients	8.0%	7.6%
Use or recommend affiliated broker for client transactions*	10.2%	6.4%
Execute agency cross transactions for clients	4.1%	2.4%

Note: As a percentage of advisers determining broker for client transactions.

*The percentage of advisers using or recommending an affiliated broker for client transactions was incorrect in last year's report. The correct percentage for 2022 is 6.5%.

5 Investment Insights

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

73.0% of SEC registered advisory firms provided asset management services for individuals and institutions in separately managed accounts. In 2023,

10,950 SEC registered and exempt reporting advisers managed

$29.0 trillion in gross assets in

103,422 private funds.

IN BRIEF

In 2023, 73.0% of advisers managed separately managed accounts for individuals and institutions. Smaller advisers are more likely to invest in registered funds and equities and less likely to invest in bonds in these accounts. Larger advisers are more likely to use derivatives and borrowings in these accounts.

Long-term growth in wrap fee program assets has been strong, with annual growth of 12.1% over the past 5 years. However, the percentage of advisers participating in these programs has been declining.

For the first time, this year's report includes information on SEC exempt reporting advisers and the private funds that they manage. In 2023, 10,950 SEC registered and exempt reporting advisers managed 103,422 private funds with $29.0 trillion in total assets.

When exempt reporting advisers are included, venture capital and private equity funds are the most common type of private funds, while hedge funds account for the largest percentage of private fund gross assets. Most private funds are small; over two-thirds of private funds have less than $100 million in gross assets.

The growth of private funds managed by SEC registered advisers has been quite consistent over the past 10 years.

Overview

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

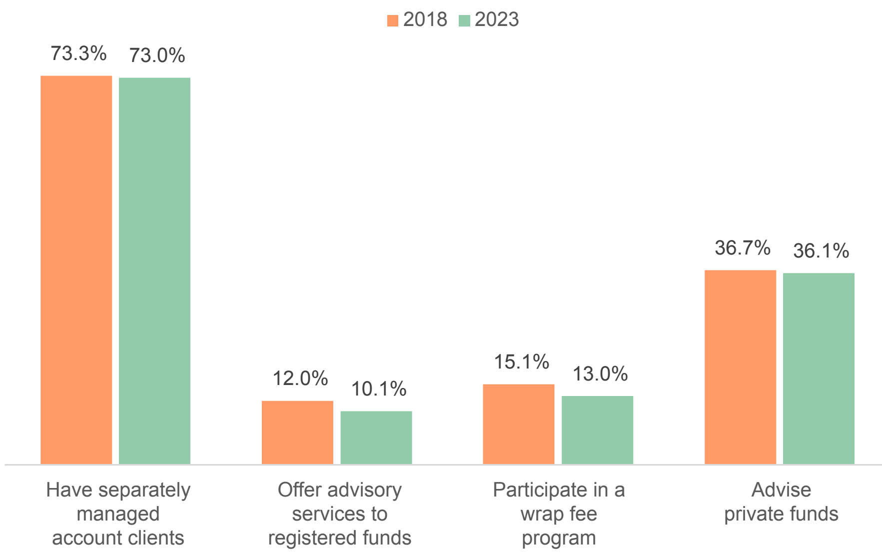
In 2023, SEC registered advisers were most likely to have separately managed accounts or advise private funds (73.0% and 36.1% of advisers, respectively). Only 11.1% advised registered funds, and only 13.0% participated in a wrap program.

Compared with the previous 5 years, advisers were less likely to offer advisory services to registered funds or participate in a wrap fee program.

FIGURE 5A

SEC Registered Advisers Are Most Likely to Have Separately Managed Accounts

Percentage of SEC Registered Advisers



Separately Managed Accounts

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

In 2023, 11,234 SEC registered advisers managed SMA assets (73.0% of all advisers), equal to the percentage managing SMA assets in 2018. Of these advisers, 545 managed at least $10 billion in SMA assets (3.5% of all advisers).

The investment approach for SMAs differs significantly between larger and smaller advisers. Compared to advisers with at least $10 billion in SMA assets, in 2023, smaller SMA advisers (with less than $10 billion in SMA assets) were likely to:

- Use registered funds more extensively. (Registered funds include open-end mutual funds and exchange-traded funds (ETFs).) In 2023, 29.6% of smaller SMA advisers invested more than half of client assets in registered funds, compared to 16.7% of larger SMA advisers.

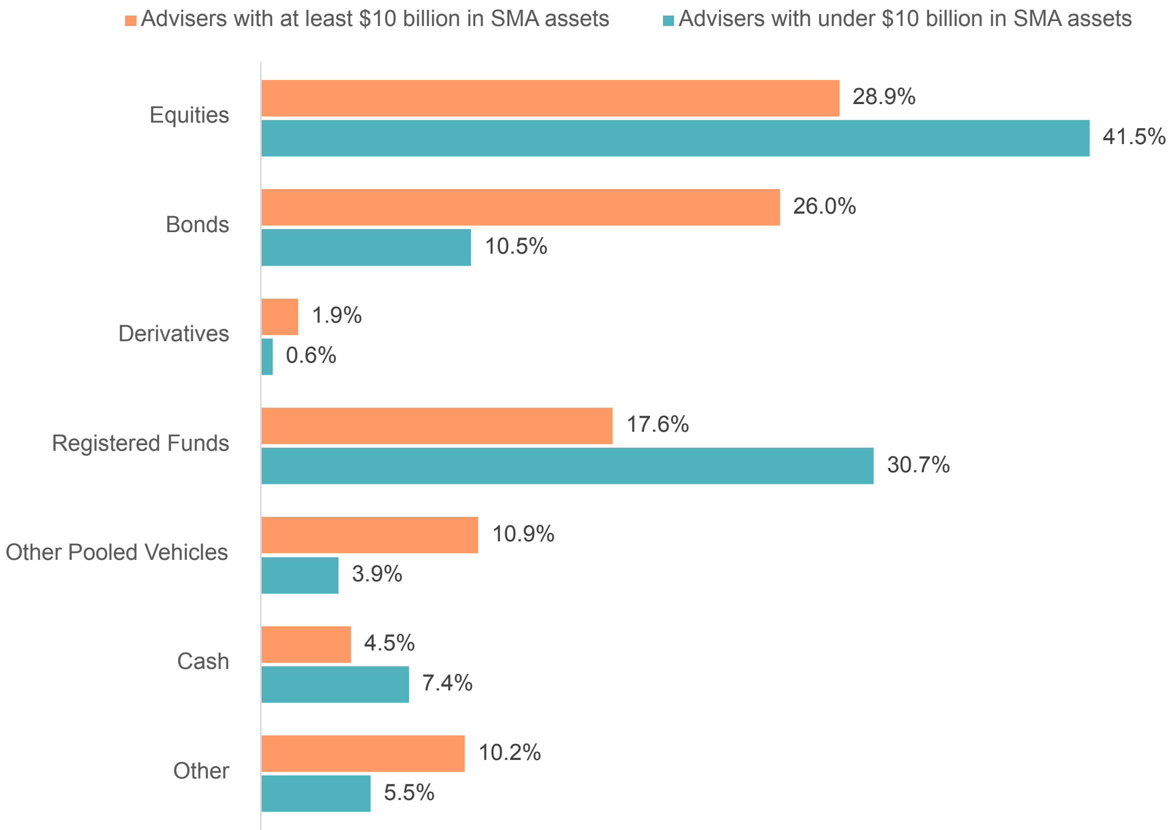
- Have a lower exposure to bonds. The difference between larger and smaller SMA advisers is largest in corporate bonds, but smaller advisers have lower weightings in all bond categories.
- Invest more heavily in listed equities.

Roughly 35 advisers indicated that they invested in cryptocurrencies or other digital assets in SMA accounts.

FIGURE 5B

Larger and Smaller SMA Advisers Have Different Approaches to Investing Portfolios

Estimated Asset Allocation by Separately Managed Account (SMA) Assets Under Management, 2023



Note: Fiscal year-end data.

In Form ADV, advisers provide information on the use of borrowings and derivatives in SMAs. In 2023, 1,963 advisers used borrowings in separately managed accounts, while 2,132 advisers used derivatives (19.0% and 17.5% of advisers with SMA assets, respectively). These percentages have been stable over the past 3 years.

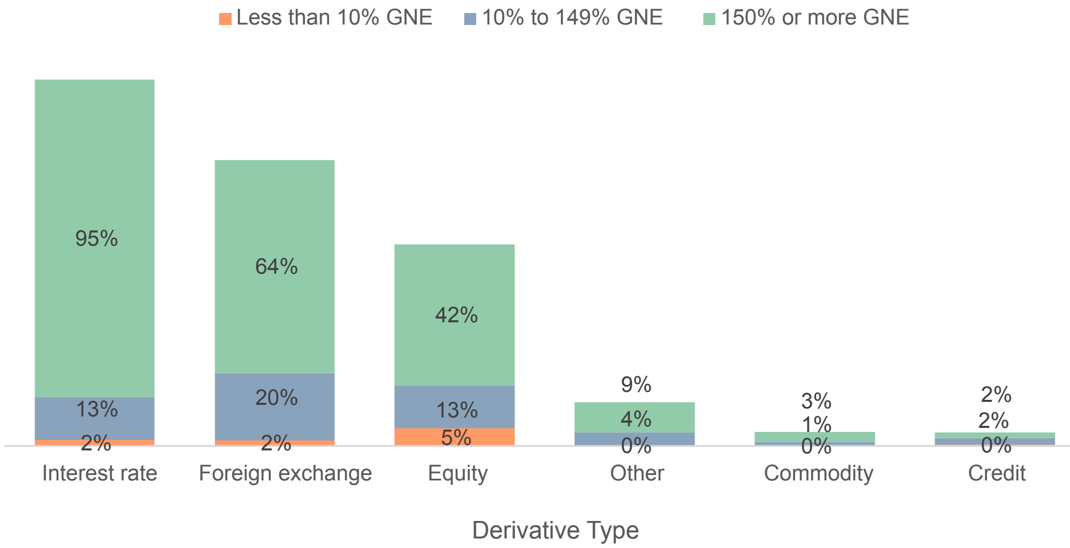
Advisers using borrowings and derivatives report gross notional exposure in Form ADV. This data shows that larger SMA advisers (those with more than $10 billion in SMA assets) use borrowings and derivatives more extensively in SMAs than smaller SMA advisers (those with $500 million to $10 billion in SMA assets). At larger advisers, a greater percentage of SMA assets use borrowings or derivatives, and gross notional exposure tends to be higher.

Advisers also provide information on the dollar value of borrowings in SMAs. Borrowings represent a higher proportion of gross notional exposure for smaller advisers.

Larger advisers are also required to provide data on the usage of different types of derivatives. (Smaller advisers are not required to provide this data.) Advisers with at least $10 billion in SMA assets are most likely to use interest rate and foreign exchange derivatives, especially in accounts with over 150% gross notional exposure. The use of equity derivatives is also significant.

FIGURE 5C

Larger Advisers Use Interest Rate and Foreign Exchange Derivatives Most Extensively



Note: Advisers are not required to provide this information for separately managed accounts with less than $10 million in assets.

Registered Funds

Registered funds are funds registered with the SEC under the Investment Company Act of 1940, most commonly investment companies and business development companies. Investment companies include open-end mutual funds, ETFs, closed-end funds, and unit investment trusts.

In 2023, the number of advisers reporting that they had registered fund clients rose by 4.5% to 1,702 (11.1% of advisers), nearly completely reversing a decline over the previous 4 years. Many of the firms reporting that they had registered fund clients for the first time are small; nearly half have less than $10 million in registered fund assets, while roughly one-third have less than $100 million in total assets under management.

Of the 1,702 advisers with registered fund clients, 1,550 provided portfolio management services to registered funds. Other advisers provided other types of advisory services to registered funds, such as securities ratings services. Only 400 advisers had registered fund clients exclusively.

In Form ADV, advisers reported managing $43.8 trillion in assets for 25,841 registered fund clients. These asset numbers are significantly higher than the $33.9 trillion in assets at year-end 2023 reported by the Investment Company Institute (ICI).* More than one adviser may manage assets for the same fund, either as a sub-adviser or as part of a fund of funds structure; the ICI data excludes these overlaps from asset totals.

The 25,841 registered fund clients reported in Form ADV are also significantly higher than the 16,038 funds offered to the public at year-end 2023 as reported by the ICI. Again, more than one adviser may manage assets for the same fund, and only a portion of these overlaps are reflected in the number of funds in the ICI data. In addition, advisers may report funds as clients when they provide advisory services other than portfolio management.

*ICI data in this section is from Investment Company Institute, *2024 Investment Company Fact Book*. Includes funds of funds. ICI data does not include business development companies.

Advisers managing registered fund assets reported $56.6 trillion in parallel managed accounts in 2023. A parallel managed account is another account managed by the adviser that pursues substantially the same investment objective and strategy and invests side by side in substantially the same positions as the registered fund. The assets in parallel managed accounts in 2023 were considerably higher than the $31.7 trillion in parallel managed accounts reported in 2022.

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 2023, the number of advisers participating in wrap fee programs (as a sponsor, portfolio manager, or both) fell for the second year in a row, while the percentage of advisers participating in these programs declined for the fifth year in a row.

The decline in the percentage of advisers may be at least partly attributable to the increasing number of advisers managing private funds. These advisers are less likely to participate in wrap programs.

The decline may also be attributable to the increasing use of unified managed accounts (UMAs) as an alternative to wrap fee programs. In UMAs, advisers provide portfolio recommendations rather than directly manage client funds. Advisers are not required to report their participation in UMAs in Form ADV.

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

Assets in wrap fee programs increased by 16.1% in 2023, reflecting strong stock returns. Longer-term growth has been solid, with average annual growth over the past 5 years of 12.3%.

FIGURE 5D

Adviser Participation in Wrap Programs Has Been Declining

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

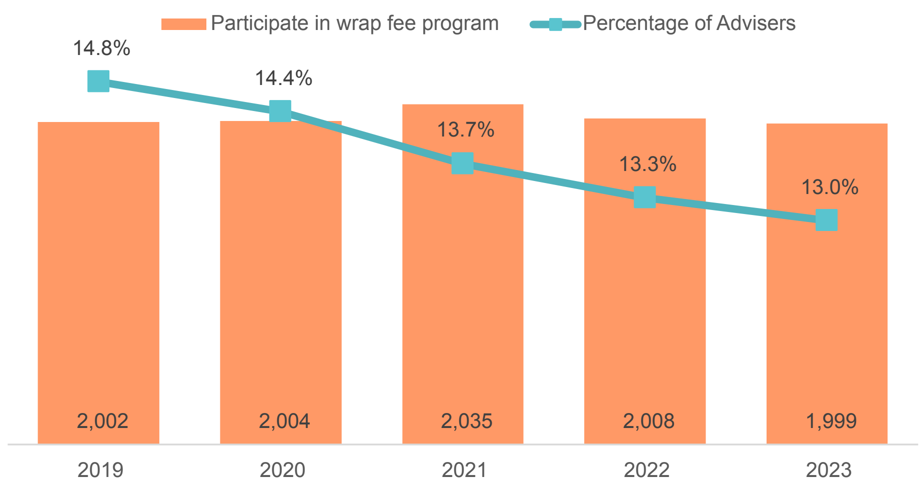
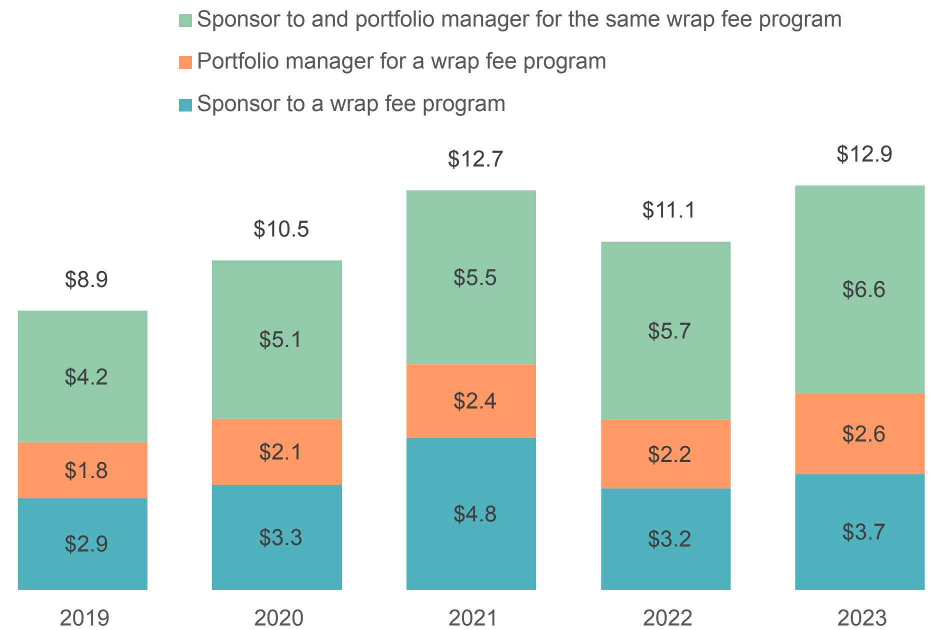


FIGURE 5E

Longer-Term Asset Growth Has Been Solid

Assets, $ Trillions



Private Funds

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

However, while the fund itself is exempt from registration, the adviser to the fund may be required to register. In 2023, 5,560 advisers to private funds were registered with the SEC. These advisers managed $22.9 trillion in 58,350 private funds.

Other advisers to private funds may be exempt from registration if they advise less than $150 million in private funds or only venture capital funds (and have no other clients). These “exempt reporting advisers” (ERAs) must file and answer certain questions in Form ADV Part 1 but are not required to complete the other sections of Form ADV. For the first time this year, this report includes information about ERAs and the private funds that they manage.

In 2023, there were 5,390 ERAs reporting to the SEC. These advisers managed $6.1 trillion in 45,072 private funds. Approximately one-third of these advisers are exempt because they are advisers only to venture capital funds, while approximately two-thirds are exempt because they advise private funds with less than $150 million in assets.

Notably, a single ERA that provides an online platform for launching a venture capital fund accounted for 18,332 of these funds. These funds are generally quite small, with an average size of under $750,000 in gross assets; the largest fund has $24 million in gross assets.

Excluding this online platform from the ERA data provides a better comparison with the private funds management of SEC registered advisers. On average, ERAs manage fewer funds (5 versus 10 for SEC registered advisers), and the average fund managed by an ERA is smaller ($226.6 million versus $392.3 million for SEC registered advisers).

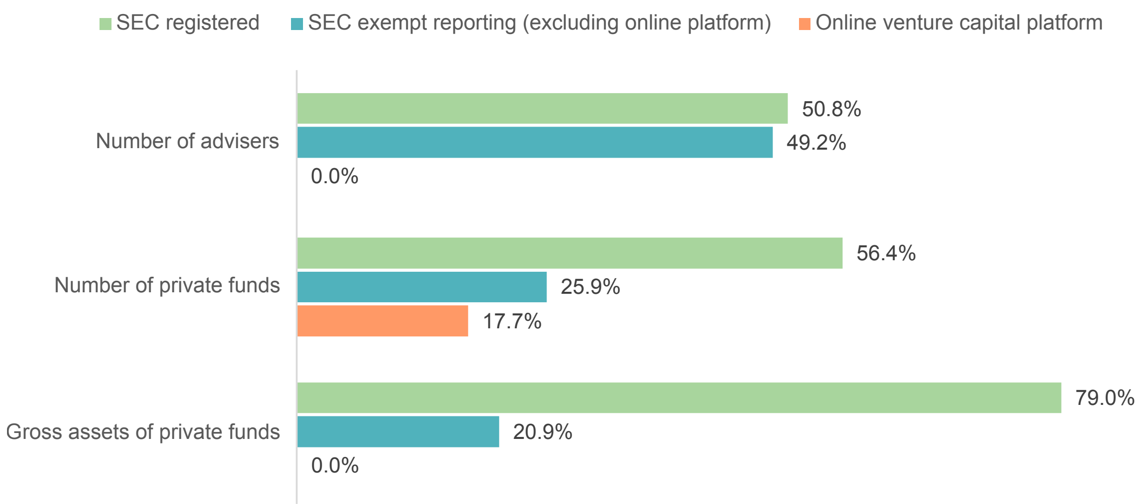
In total, 10,950 SEC registered advisers and ERAs manage $29.0 trillion in gross assets in 103,422 private funds.

Note that an additional 4,438 advisers report that they manage private funds; these are advisers that are registered with state regulators or that have filed with state regulators as exempt reporting advisers (21.9% of state registered and exempt reporting advisers). Information about the funds they manage is not available, and they are not included in this discussion.

FIGURE 5F

SEC Registered Advisers Manage the Majority of Private Funds and the Bulk of Private Fund Assets

Percentage of Advisers to Private Funds, Number of Private Funds, and Gross Assets of Private Funds by Type of Adviser, 2023



Looking at private fund assets managed, ERAs are generally smaller than SEC registered advisers. However, some ERAs are sizeable, with 14.2% managing over $1 billion in gross assets.

ERAs may manage more than $150 million in assets if they manage venture capital funds exclusively. In addition, private fund gross assets (which are the basis of this analysis) may exceed net assets (used for determining ERA status) due to borrowings. Finally, in 2023, 158 advisers reported that they are no longer eligible for ERA status because they manage more than $150 million in private funds (other than venture capital funds); these advisers have not yet registered with the SEC as of the time of publication.

FIGURE 5G

Exempt Reporting Advisers Can Be Sizeable

Advisers by Private Fund Gross Assets, 2023

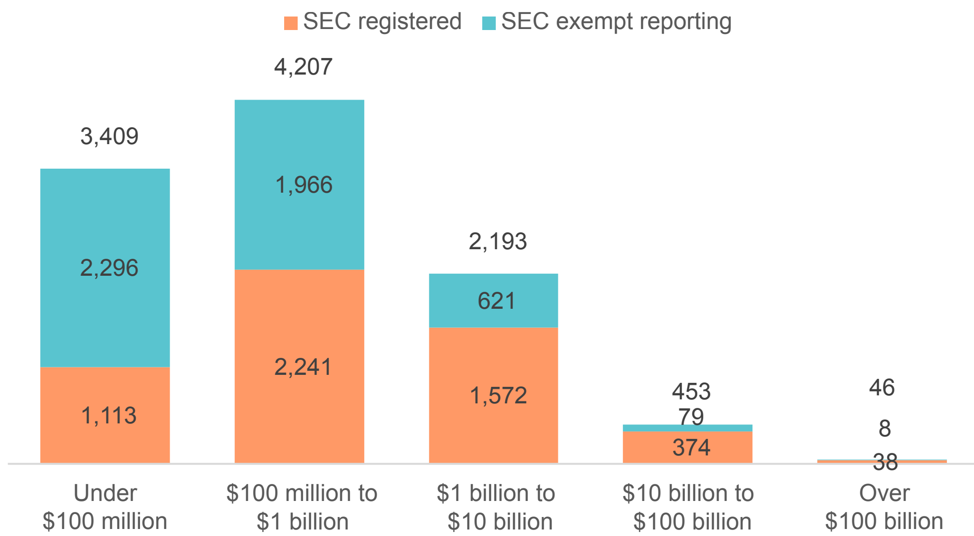
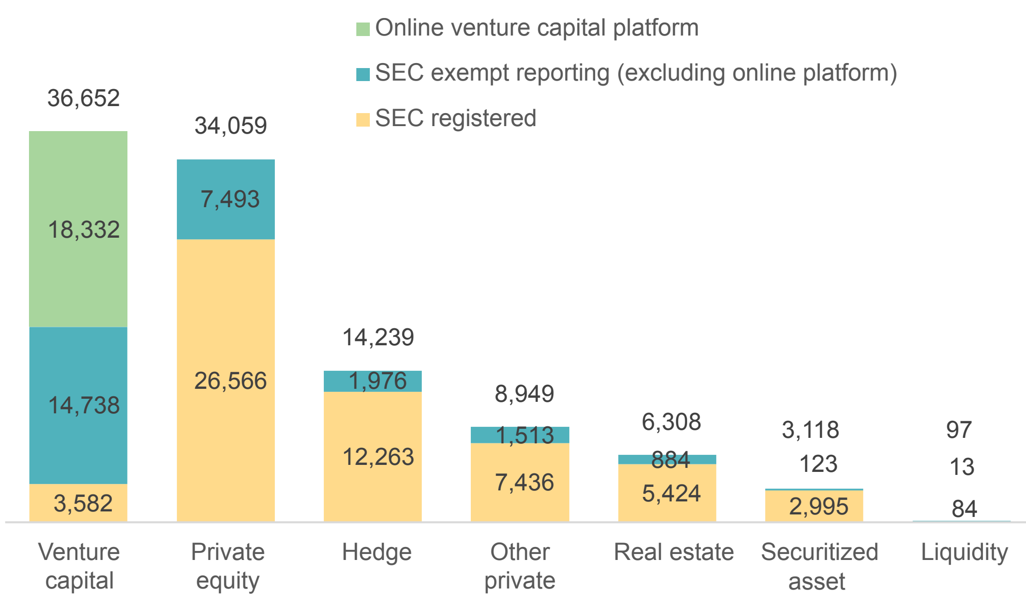


FIGURE 5H

Venture Capital and Private Equity Funds Are the Most Common Types of Private Funds

Number of Funds, 2023



Private equity funds and venture capital funds are the most common types of private funds, with hedge funds ranking third.

Hedge funds account for a significantly larger proportion of assets. While hedge funds account for only 13.8% of the number of funds, they make up 41.4% of private fund gross assets. The average hedge fund has $853.9 million in gross assets, compared to an average of $193.2 million for other types of private funds combined.

In terms of average fund size, liquidity funds are the largest, with average assets of $5.3 billion.

FIGURE 5I

Hedge Funds Are Largest in Terms of Assets

Gross Assets, $ Trillions, 2023

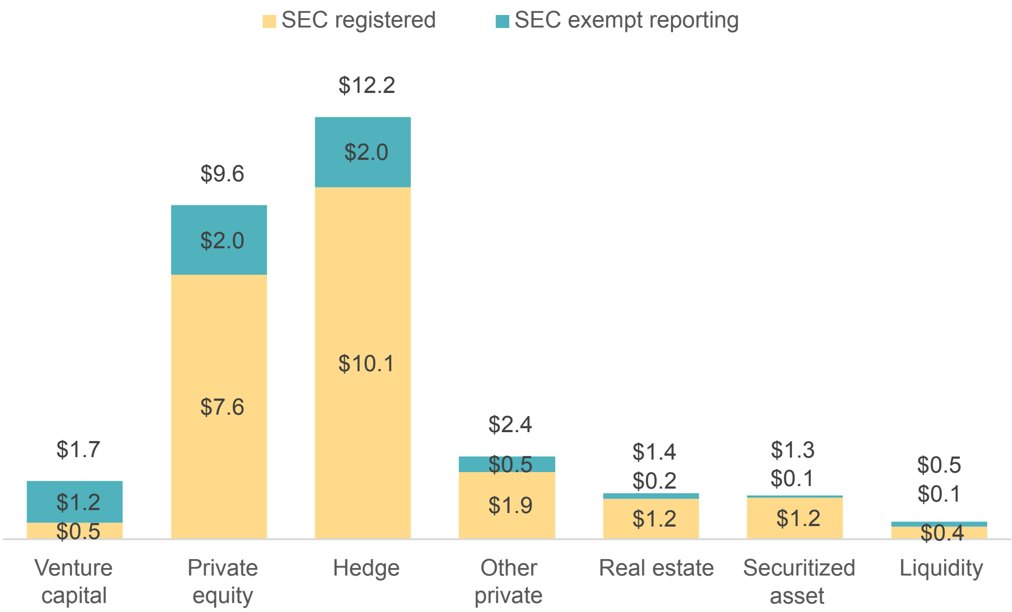
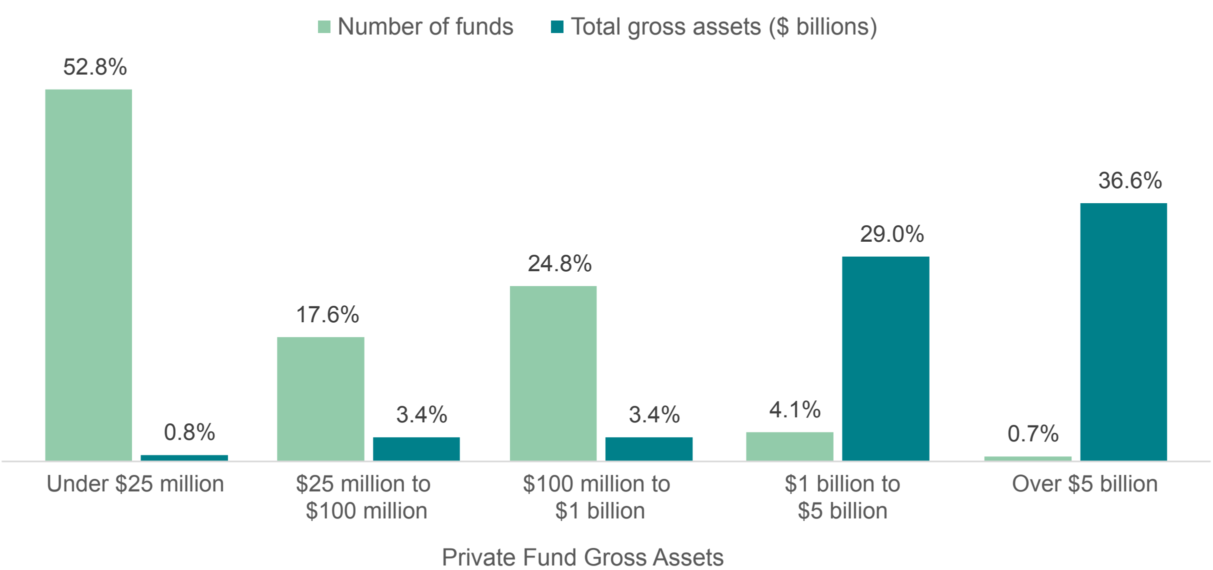


FIGURE 5J

Most Private Funds Are Small

2023



Most private funds are small. In 2023, over two-thirds of private funds had less than $100 million in gross assets.

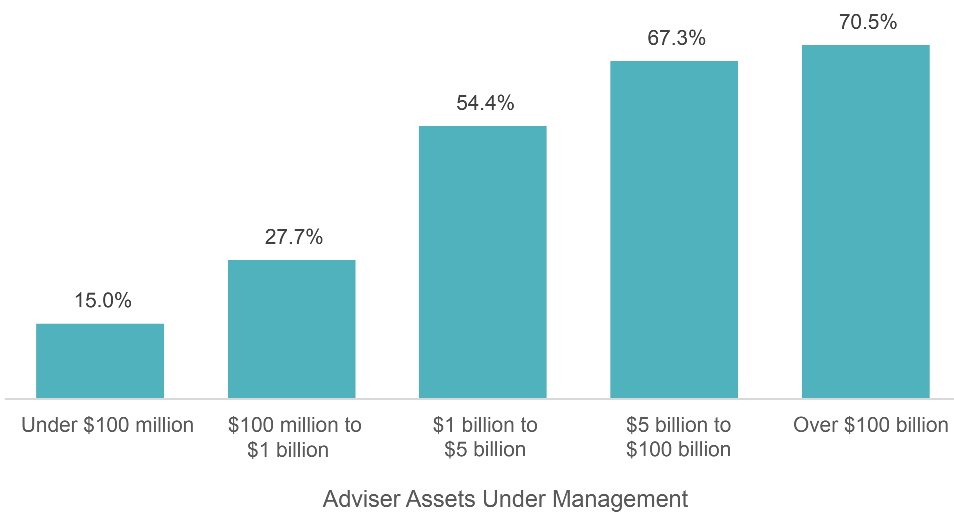
Focusing in on SEC registered advisers, in 2023, 5,560 SEC registered advisers managed private funds (36.1% of all advisers). The percentage of advisers managing private funds has been stable over the past decade. Over one-third of SEC registered private fund advisers manage private funds exclusively.

Larger SEC registered advisers are more likely to manage private funds. For example, in 2023, over two-thirds of advisers with more than $100 billion in assets managed private funds, compared to 27.7% of advisers with $100 million to $1 billion in assets. Smaller advisers that wish to manage private funds may elect to specialize so that they may become an exempt reporting adviser.

FIGURE 5K

Larger Advisers Are More Likely to Manage Private Funds

Percentage of SEC Registered Advisers Managing Private Funds, 2023



In 2023, the number of private funds managed by SEC registered advisers increased by 5.2%, to 58,350, a more moderate rate of growth than the 10+% gains in the preceding 2 years.

The number of funds increased in all categories except for hedge funds (-1.4%) and liquidity funds (-9.7%). There are a small number of liquidity funds (84 in 2023 versus 93 in 2022).

Gross assets in private funds managed by SEC registered advisers also increased in 2023, gaining 10.3% to reach $23.3 trillion. Roughly half of this growth was from gains in existing funds in a favorable market environment.

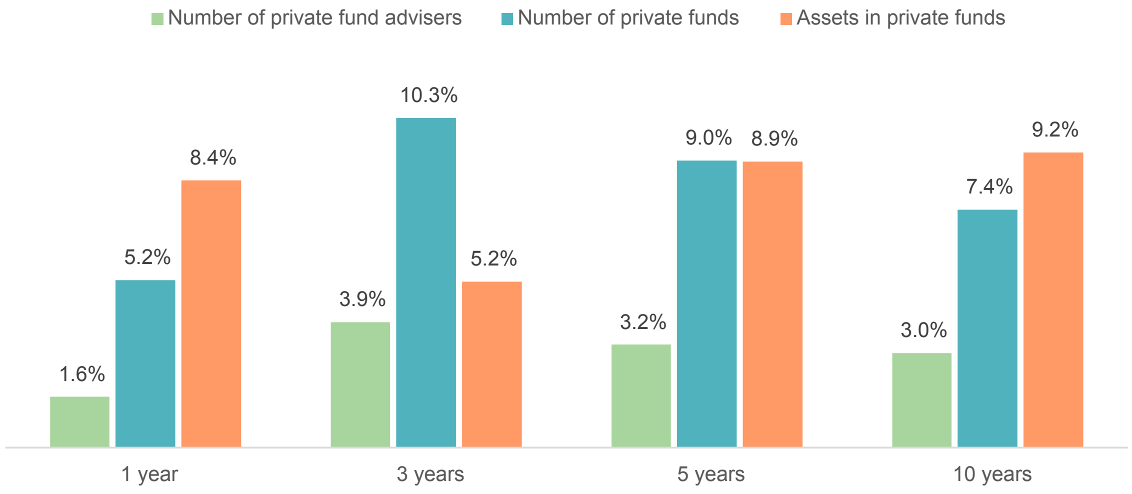
The remaining growth in assets resulted from the net new issuance of funds. Approximately 7,500 private funds were introduced in 2023 compared to over 9,000 funds introduced in 2022; the slower pace of issuance may be a delayed response to the market declines in the prior year. Roughly half of the new funds were private equity funds. Approximately 4,500 funds were closed in 2023.

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

FIGURE 5L

Growth in Private Funds Managed by SEC Registered Advisers Has Been Steady

Annual Growth Rates for Periods Ended 2023



The number of private equity funds has increased by more than 2.8 times in the past 10 years. Private equity managers often raise assets by starting new funds rather than accepting additional investment in existing funds. As a result, private equity funds are now 45.5% of all private funds, compared to 33.0% in 2013.

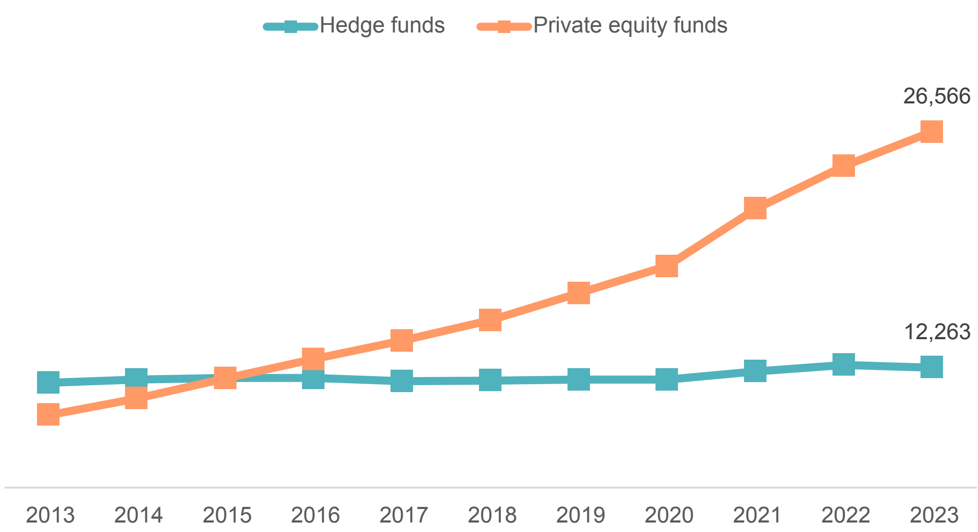
At the same time, assets of private equity funds have increased as a percentage of total private fund assets, to 33.3% in 2023 from 20.7% in 2013.

By contrast, the share of private fund assets invested in hedge funds declined over the past 10 years, to 44.3% of private fund assets in 2023 versus 58.9% in 2013.

FIGURE 5M

Growth in the Number of Private Equity Funds Has Been Strong

Number of Funds Managed by SEC Registered Advisers



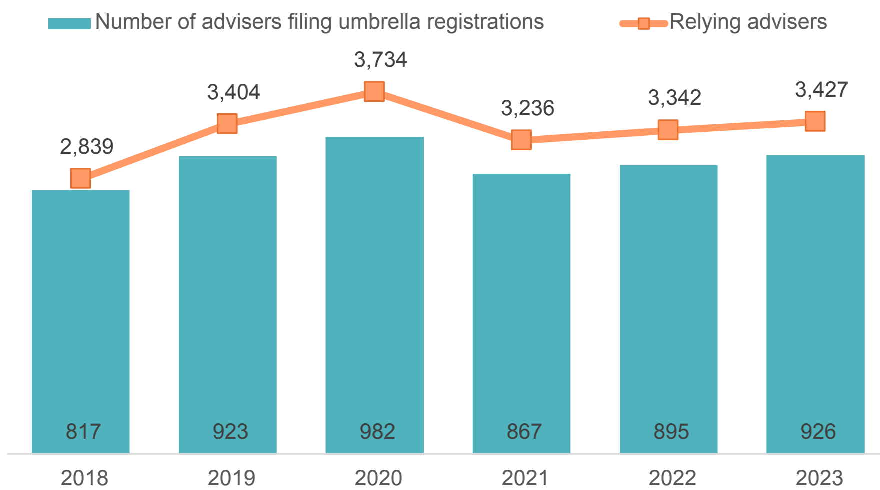
Since 2017, certain groups of private fund advisers have been permitted to file a single Form ADV with the SEC even though each is a distinct legal entity that would otherwise be required to register separately. A single adviser files an "umbrella registration" that covers it and its affiliated "relying advisers."

The number of advisers filing umbrella registrations increased again in 2023.

FIGURE 5N

The Number of Advisers Filing Umbrella Registrations Increased Again in 2023

Number of Advisers



Changes to Private Fund Regulation

In August 2023, the SEC adopted a new rule that would have a significant impact on the operations of private funds and their advisers.

The rule would require SEC registered advisers to private funds to:

- Provide investors with quarterly statements about fund performance, fees, and expenses
- Obtain annual audits of private funds
- Obtain fairness or valuation opinions for adviser-led secondaries (where investors are offered the option to exchange their fund interests for interests in another vehicle offered by the adviser)
- Document the adviser's annual compliance review (this requirement will apply to all SEC registered advisers, not only private fund advisers)

In addition, the rule will prohibit certain practices with regard to charging and allocating fees, expenses, and taxes. It would also prohibit certain types of preferential treatment of some investors.

While no changes to Form ADV were made, the rule would be likely to influence certain responses to questions in Part 1A, such as the question related to fund audits.

However, in June 2024, the Fifth Circuit Court of Appeals vacated the entire rule package. Prior to the Court's decision, compliance dates were in September 2024 and March 2025, depending upon the specific provision and the adviser's private fund assets under management. As of time of publication, the SEC has not commented on whether it intends to seek further review.

Appendix | Insights Into Private Fund Operations

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

The analysis that follows includes private funds managed by SEC registered advisers and ERAs but excludes 18,332 funds managed by a single ERA that provides an online platform for launching a venture capital fund.

These 18,332 funds are all registered in the United States; almost all rely on the 3(c)(1) (number of clients) basis for exemption. The median fund in this group has a $1,000 minimum investment and 22 owners, with 13% of assets held by non-U.S. persons. Approximately one-third of the funds have another adviser. Only a few are subject to an annual audit. All of the funds use a custodian, administrator, and third-party marketer; assets are valued by a related person.

With the exception of these 18,332 funds, the practices of registered and exempt reporting advisers are generally similar, outside of the basis for exemption. Private funds of registered advisers are more likely to use the 3(c)(7) (qualified purchaser) exemption, while funds of exempt reporting advisers are more likely to use the 3(c)(1) (number of clients) exemption.

For more detailed information, see Data Table 5A and Data Table 5B (available online).

TABLE 5A
Private Fund Operational Practices
Percentage of Fund Type *(Unless Otherwise Noted), 2023*

Country of Organization			
Fund Type	*All*	*Hedge*	*Private Equity*
United States	68.9%	53.7%	69.4%
Cayman Islands	18.2%	36.3%	15.3%
Other	13.0%	10.0%	15.4%
Basis for Exclusion From Registration			
Fund Type	*All*	*Hedge*	*Private Equity*
3(c)(1) Number of clients	41.2%	25.2%	37.9%
3(c)(7) Qualified purchasers only	68.2%	79.3%	73.7%
Specialized Fund Types			
Fund Type	*All*	*Hedge*	*Private Equity*
Master fund (in master-feeder arrangement)	12.1%	31.4%	10.9%
Feeder fund (in master-feeder arrangement)	4.4%	10.0%	3.5%
Fund of funds	18.3%	18.0%	23.1%
Fund of funds investing in related fund (of funds of funds)	4.5%	7.1%	5.3%
Investments by the Fund			
Fund Type	*All*	*Hedge*	*Private Equity*
Invests in registered funds	3.2%	7.1%	5.3%

TABLE 5A, CONTINUED

Private Fund Operational Practices

Percentage of Fund Type *(Unless Otherwise Noted), 2023*

Investments and Investors in the Fund

Fund Type	*All*	*Hedge*	*Private Equity*
Minimum investment			
— Median	$100,000	$1 million	$100,000
— Average	$8.6 million	$24.5 million	$8.1 million
Beneficial owners			
— Median	16	13	16
— Average	141	72	46
Ownership by adviser and related persons			
— Median	1%	2%	1%
— Average	12%	18%	11%
Ownership by funds of funds			
— Median	0%	0%	0%
— Average	12%	11%	15%
Sales limited to qualified clients (of funds relying on 3(c)(1))	26.0%	20.6%	28.2%
Ownership by non-U.S. persons			
— Median	3%	3%	8%
— Average	28%	31%	32%
Clients solicited	14.9%	21.5%	12.7%
Percentage of adviser's clients invested in fund			
— Median	0%	0%	0%
— Average	4%	5%	4%
Relied on exemption under Regulation D	71.9%	73.8%	73.3%

Advisers and Sub-Advisers

Fund Type	*All*	*Hedge*	*Private Equity*
Sub-adviser to the private fund	1.8%	2.0%	1.9%
Fund has other advisers	8.7%	10.8%	8.7%

Audits and Auditors

Fund Type	*All*	*Hedge*	*Private Equity*
Financial statements subject to annual audit	80.0%	96.1%	88.9%
Financial statements prepared in accordance with U.S. GAAP	71.5%	88.2%	79.5%
Audited financial statements are distributed to investors	73.6%	90.4%	82.5%
Received unqualified opinion or report not yet received	79.0%	95.1%	88.2%

TABLE 5A, CONTINUED

Private Fund Operational Practices

Percentage of Fund Type *(Unless Otherwise Noted), 2023*

Service Providers

Fund Type	*All*	*Hedge*	*Private Equity*
Uses prime broker	10.6%	47.5%	3.4%
Uses custodian	83.5%	96.8%	85.8%
Uses third-party administrator	67.7%	87.7%	61.5%
Uses third-party marketer	16.1%	23.5%	15.2%

Percentage of Fund Assets Valued by Non-Related Person

Fund Type	*All*	*Hedge*	*Private Equity*
100%	29.7%	62.2%	18.9%
0%	66.8%	29.3%	78.7%
Median	0%	100%	0%
Average	32%	68%	20%

Note: Table excludes 18,332 funds managed by a single exempt reporting adviser that provides an online platform for launching a venture capital fund.

TABLE 5B

Private Fund Auditors

Percentage of Reported Auditors, 2023

Independent public accountant	99.3%
Registered with Public Company Accounting Oversight Board (PCAOB)	96.6%
Subject to regular inspection by PCAOB	95.9%

6 Business Insights

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

68.3%

of advisers reported that, in 2023, their only business activity was providing investment advice.

65.9%

of SEC registered investment advisers reported that, in 2023, they had no financial industry affiliations or had no affiliations outside investment management.

IN BRIEF

In 2023, over two-thirds of advisers (68.3%) reported that their only business activity was providing investment advice.

Approximately two-thirds of advisers (65.9%) reported no affiliations with other firms in the financial industry or only affiliations with firms involved in investment management. In 2023, 19.6% of advisers reported that they were affiliated with other SEC registered advisers.

In 2023, 40.6% of advisers reported that they include performance results in their advertising. Over 75% of advisers with more than $1 billion in assets under management engage in at least one of the specified advertising practices.

The chief compliance officer (CCO) is likely to be focused solely on compliance; most CCOs do not have another title that indicates a functional responsibility beyond compliance. A third party not related to the adviser compensates the CCO at only 7.1% of advisers.

Affiliations

In Form ADV Part 1A, advisers are required to provide information on affiliations (i.e., related persons) in the financial industry.

In 2023, 27.6% of SEC registered 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, commodity pool operators (CPOs), or commodity trading advisors (CTAs).

Approximately one-third of advisers (34.1%) have affiliations with firms in the financial industry that are not investment management-related (such as brokerage firms, insurance companies, or accounting firms).

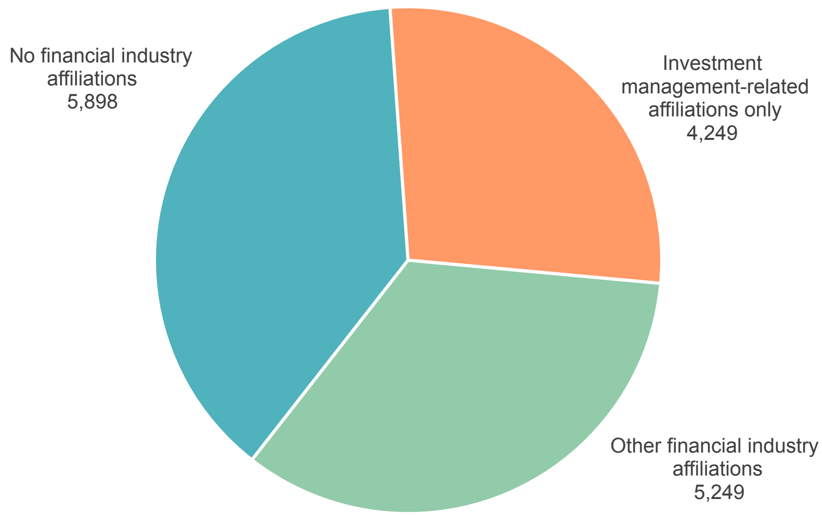
The remaining advisers had no affiliations in the financial industry.

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

FIGURE 6A

Financial Industry Affiliations

Number of SEC Registered Advisers by Type of Financial Industry Affiliation, 2023



Compared to 2013, advisers are significantly less likely to be affiliated with another investment adviser or a brokerage firm. The decline may be partly the result of consolidation of investment advisers and brokerage firms.

TABLE 6A

Most Common Financial Industry Affiliations

Percentage of SEC Registered Advisers with Affiliation

Financial Industry Affiliation	2013	2023
Sponsor, general partner, or managing member of pooled investment vehicles	35.4%	36.9%
Other investment adviser (including financial planners)	37.5%	28.9%
Insurance company or agency	16.1%	17.0%
Broker-dealer, municipal securities dealer, or government securities broker or dealer	21.3%	15.9%
Commodity pool operator or commodity trading advisor	17.4%	15.6%

Of the advisers reporting an affiliation with another investment adviser, approximately 2 in 5 reported that they have an affiliation with an SEC registered adviser (19.6% of all advisers).

Advisers affiliated with other SEC registered advisers tend to be large, with average assets under management of $31.8 billion, compared to an average of $2.6 billion in assets for "standalone" advisers without an affiliation with an SEC registered adviser.

There are 1,015 "affiliated adviser groups" (*i.e.*, groups of advisers reporting an affiliation in Form ADV). On average, affiliated adviser groups consist of 3 advisers and have assets under management of $95.0 billion. However, while these groups are large on average, they vary significantly in size, and standalone advisers can also be quite large.

TABLE 6B

Affiliated Adviser Groups Tend to Be Large

2023

	Standalone advisers	*Advisers affiliated with SEC registered adviser*	*Affiliated adviser groups*
Number of advisers or affiliated adviser groups	12,377	3,019	1,015
Assets under management			
— Average	$2.6 billion	$31.8 billion	$95.0 billion
— Median	$348 million	$1.6 billion	$5.1 billion
— Range	0 to $2.6 trillion	0 to $7.9 trillion	0 to $9.2 trillion
Employees			
— Average	22	243	727
— Median	7	24	70
— Range	0 to 7,131	0 to 35,841	0 to 35,846

Note: When advisers report that they have no employees, it is likely that employees are shared with, and technically employed by, an affiliate of the firm.

Advertising

Form ADV Part 1A asks advisers about their advertising practices. Advisers must provide yes/no answers to questions about an adviser's use of performance results, references to its specific investment advice, testimonials, endorsements, and third-party ratings in its advertisements, among other practices.

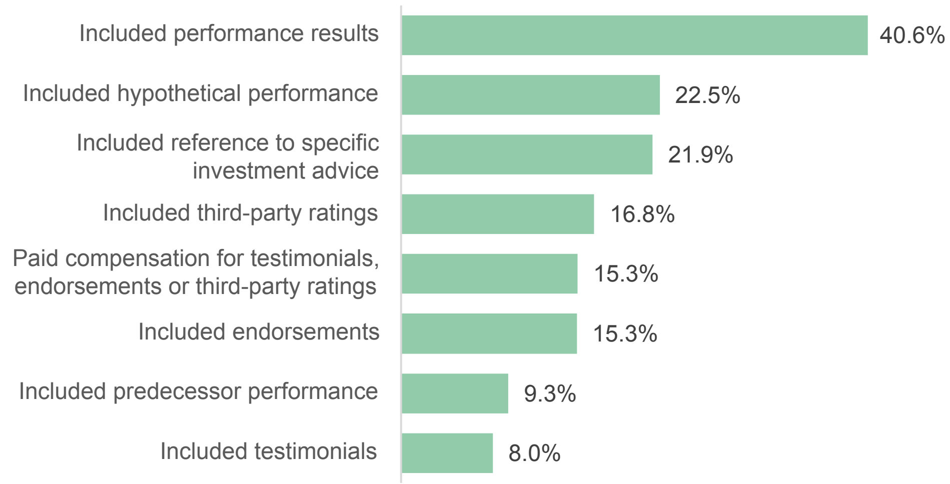
In 2023, over half of SEC registered advisers (51.4%) reported that they engaged in at least one of the specified advertising practices. Inclusion of performance results in advertisements is the most common practice (40.6% of advisers). Nearly a quarter of advisers included hypothetical performance in advertisements, the second most common practice.

Adviser advertising practices, including the use of hypothetical performance, have been the focus of recent SEC examinations and enforcement actions. In April 2024, the Division of Examinations released a risk alert on marketing rule compliance, which included observations on Form ADV reporting and on advertisements.

FIGURE 6B

Inclusion of Performance Results Is the Most Common Advertising Practice

Percentage of SEC Registered Advisers, 2023

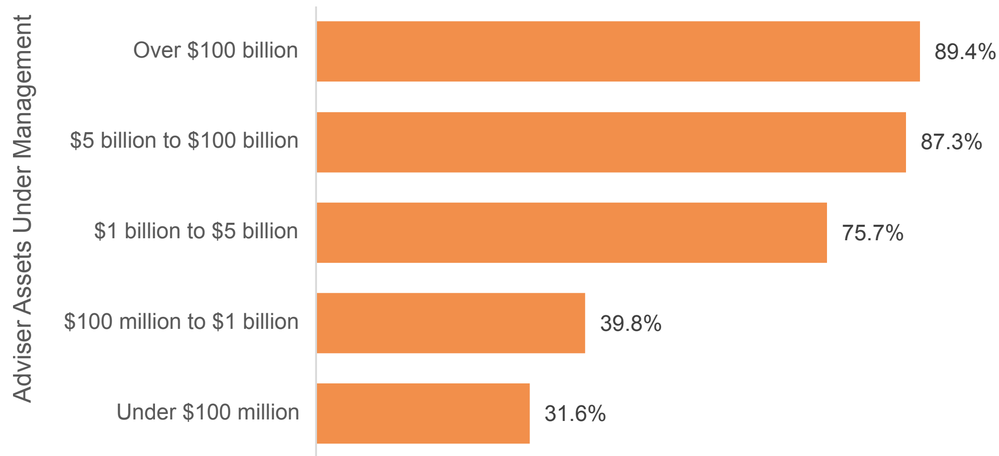


Larger advisers were more likely to engage in the specified advertising practices than smaller advisers. For example, 89.4% of respondents with more than $100 billion in assets answered "yes" to at least one question, while only 31.6% of advisers with less than $100 million in assets indicated that they engage in any of the specified marketing activities.

FIGURE 6C

Larger Advisers Were More Likely to Engage in the Specified Advertising Practices

Percentage of SEC Registered Advisers Responding "Yes" to Any of the Advertising Questions, 2023



Advisers to certain pooled investment vehicles were more likely to engage in one of the specified advertising practices. Approximately 4 in 5 advisers to investment companies and private funds answered "yes" to at least one question.

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

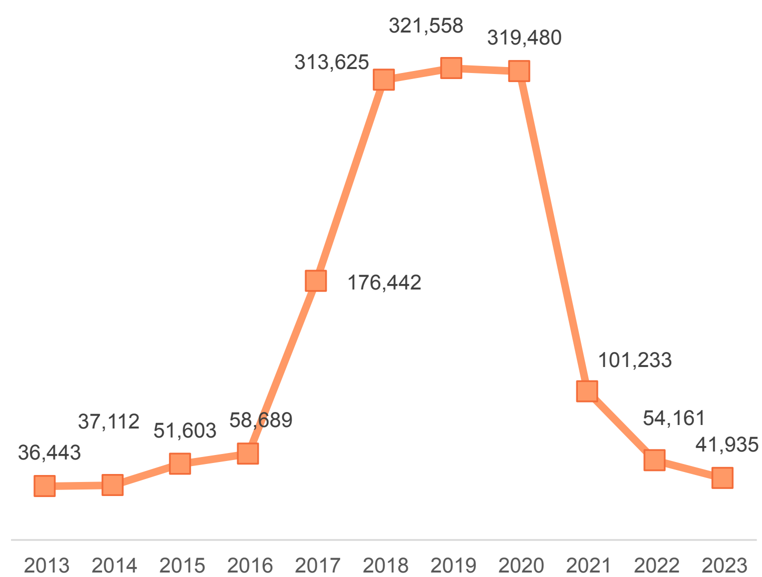
Solicitors and Referral Compensation

The number of third-party solicitors used by SEC registered advisers dropped again in 2023. Declines over the past 3 years have reversed gains from 2013 to 2018. The gains were driven by "refer a friend" programs on digital advice platforms, which gave clients a small cash credit for making a referral to the platform. Use of these programs has declined.

FIGURE 6D

The Number of Third-Party Solicitors Dropped Sharply Again in 2023

Number of Third-Party Solicitors, 2023



With regard to client referrals, in 2023:

- 25.7% of advisers paid third parties for client referrals
- 16.9% of advisers compensated employees (other than through salary) for obtaining clients
- 6.4% of advisers received compensation for referrals

These percentages were in line with the previous year.

Proposed Questions on Outsourcing

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

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

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

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

To learn more about the proposed rule and the Investment Adviser Association's and COMPLY's positions on it, read the IAA's comment letters here, here, and here, and COMPLY's comment letter.

Other Business Activities

In Form ADV Part 1A, advisers must provide information on business activities conducted within the firm (as opposed to activities being conducted by an affiliated entity).

In 2023, over two-thirds of SEC registered advisers (68.3%) reported that their only business activity is providing investment advice.

Another 12.9% of advisers act as CPOs and/or CTAs in addition to providing investment advice.

The remaining 18.8% of advisers are engaged in other business activities outside of providing investment advice or acting as CPO/CTA.

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

FIGURE 6E

Most Advisers Are Focused on Providing Investment Advice

Number of SEC Registered Advisers, 2023

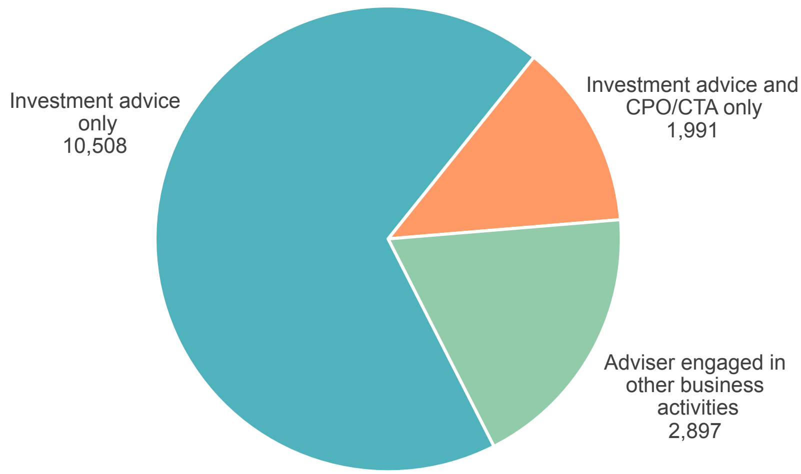


TABLE 6C

Most Common Other Business Activities

Percentage of Advisers With Other Businesses, 2023

Other Business Activity	% of Advisers
Commodity pool operator or commodity trading advisor	14.4%
Insurance broker or agent	8.1%
Other (non-financial)	7.7%
Broker-dealer	2.7%
Registered representative of broker-dealer	2.5%
Other financial product salesperson (most commonly credit, cash management, and/or insurance solutions)	1.9%
Accountant or accounting firm	1.6%

In 2023, 252 advisers (1.6%) reported that another business was their primary business, while 17.1% of advisers reported that they sell other products or services to advisory clients.

Focus on Dual Registration

In 2023, 412 SEC registered firms had dual registration, meaning that they were registered with the SEC as both an investment adviser and a brokerage firm.

These dual registered firms make up only 2.7% of investment advisory firms. However, they provided advisory services to over 19 million individuals, fully 36.8% of the individual investors served by advisers.

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

TABLE 6D

Comparison of Dual Registered Firms to Investment Adviser Only Firms

2023

	Dual Registered	Investment Adviser Only
Number of firms	331 advisers	9,058 advisers
Average assets under management	$26.0 billion	$6.0 billion
Average number of employees	979	34
Average number of investment adviser representatives	656	15

Note: SEC registered advisers. Includes only advisers with individuals as clients.

Significant differences in size make comparisons between the average dual registered firm and the average investment adviser-only firm potentially misleading.

Note that dual registered firms are uncommon. Investment advisory firms are more likely to be affiliated with a brokerage firm that is a separate entity than they are to be dual registered.

Books and Records

In 2023, 7,448 SEC registered advisers (48.4%) maintained at least some of their required books and records somewhere other than their principal offices (versus 49.4% in 2013).

Legal Entity Identifier

In 2023, 2,758 SEC registered advisers (17.9%) reported a Legal Entity Identifier (LEI). For comparison, in 2018, 2,098 advisers (16.1%) reported a Legal Entity Identifier. The LEI system was launched in 2014.

Country and State of Organization

Most SEC registered advisers are organized in the United States (94.7% in 2023). Advisers were most likely to be organized in Delaware or California (39.1% and 6.7%, respectively, of all advisers in 2023).

Foreign Regulatory Authority

In 2023, for the second year in a row, the number of SEC registered advisers registered with a foreign financial regulatory authority declined, to 1,121 advisers (7.5% of all advisers). For comparison, in 2013, 8.6% of advisers were registered with a foreign authority.

Advisers were most likely to be registered in the United Kingdom (33.1% of advisers registered with a foreign regulatory authority), Canada (20.7% registered with a province or territory or operating in Canada under an exemption for international advisers), or Ireland (11.8%). Most advisers registered with a foreign authority have registrations in only 1 country.

Note that, alternatively, advisers may conduct business in other countries by establishing affiliates in those countries.

Chief Compliance Officer

In 2023, the CCO of 7.1% of SEC registered 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.) The percentage of CCOs compensated by unrelated third parties has been increasing.

Larger advisers are less likely to have a CCO who is compensated by an unrelated third party (3.3% of advisers with more than $5 billion in assets under management in 2023).

In Form ADV Part 1A, advisers are required to disclose any additional titles held by the CCO. Looking at titles that are mentioned at least 10 times (covering approximately 80% of SEC registered advisers):

- For more than half of advisers in this group, the CCO does not have a title that indicates functional responsibility beyond compliance (*i.e.*, no additional title that does not include "compliance" other than "vice president" or similar titles). The average size of firms with specialized CCOs is $13.0 billion in assets under management, which is significantly larger than the average firm size.
- At roughly 1 in 5 advisers, the CCO is also the president, CEO, or principal or has another title that is suggestive of firm leadership. These firms are likely to be smaller, with average assets under management of $595.7 million.
- At over 10% of advisers, individuals in operations or finance (often the chief operating or chief financial officer) serve as CCO. The average assets under management of these firms is $814.1 million.
- At approximately 10% of advisers, the managing member or partner is the CCO (average assets under management of $1.4 billion).
- A member of the legal team (often the general counsel or chief legal officer) is the CCO at approximately 5% of advisers (average assets under management of $9.8 billion).
- A member of the investment or wealth management team is the CCO in less than 2% of cases. These firms are quite small on average, with $389.6 million in average assets under management.
- At 12 firms, the CCO also serves as the chief risk officer. These firms are generally large, with an average of $21.4 billion in assets under management.

Custody

Advisers increasingly report that they are deemed to have custody of client assets. In 2023, 58.0% of SEC registered advisers reported that they or a related person were deemed to have custody of client assets. The percentage of advisers deemed to have custody has been steadily rising. Advisers are more likely to report that they are deemed to have custody given the difficulty of interpreting a complex regulation, combined with increased SEC attention to this issue.

Of those advisers deemed to have custody in 2023, 97.3% were deemed to have custody of cash or bank accounts, while 88.6% were deemed to have custody of securities.

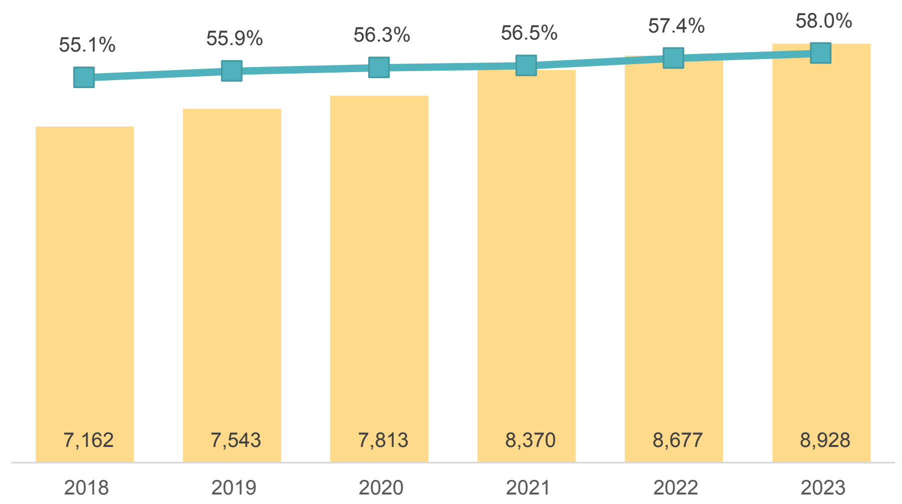
In total, advisers and related persons were deemed to have custody of 37.2% of industry assets in 2023.

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

FIGURE 6F

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

Number of SEC Registered Advisers, Percentage of SEC Registered Advisers



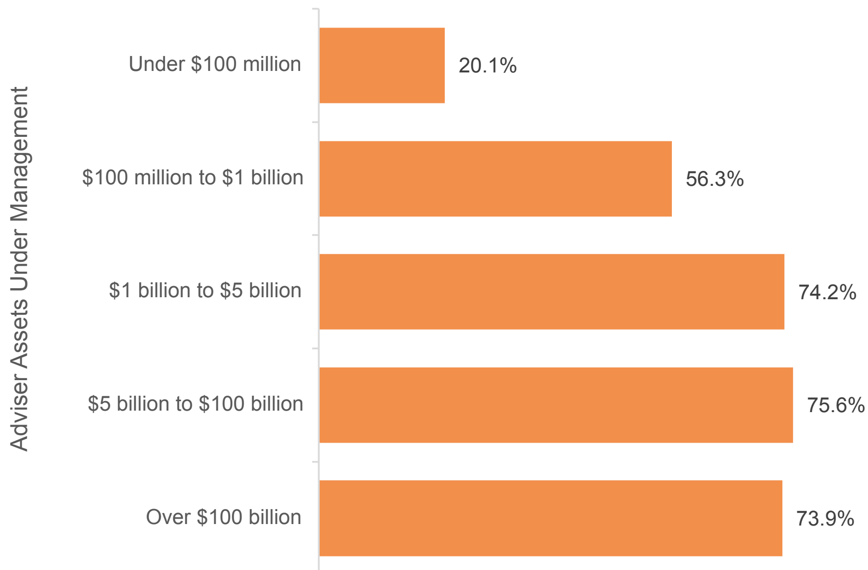
Note: Custody of cash and/or securities by adviser and/or related person(s).

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

FIGURE 6G

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

Percentage of SEC Registered Advisers, 2023



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

Private Funds

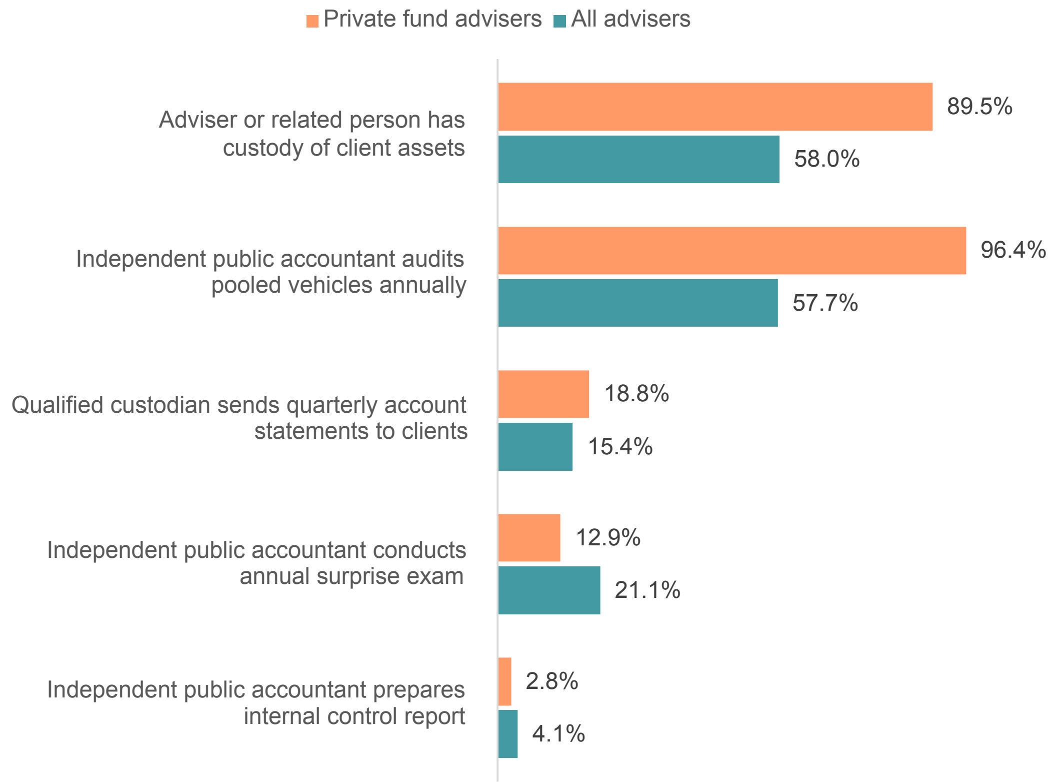
Because of the way that private funds are commonly structured, advisers to those funds are more likely to be deemed to have custody of client assets (89.5% in 2023). Many private funds are structured as partnerships or limited liability companies with the adviser (or a related person) acting as general partner or managing member. In the SEC's view, an adviser (or a related person) serving in one of these capacities is deemed to have custody because the general partner or managing member has access to or legal ownership of client assets.

In 2023, 20.8% of private funds used a broker-dealer as a custodian (versus 21.4% in 2020), while 1.0% of private funds used a custodian related to the adviser (versus 0.9% in 2020).

FIGURE 6H

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

Percentage of SEC Registered Private Fund Advisers, Percentage of All SEC Registered Advisers, 2023



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

Separately Managed Accounts

Advisers to separately managed accounts (SMAs) are increasingly likely to report that over 10% of their SMA assets are with a single custodian. In 2023, 88.4% of advisers to SMAs reported that over 10% of assets were held by a single custodian, a new high. For comparison, the percentage was 81.2% in 2019.

Many advisers to SMAs use a technology platform provided by a brokerage firm to manage their advisory practice. These platforms provide custody services in addition to trading capabilities, portfolio analysis tools, and other tools and services. As a result, custody of client assets tends to be concentrated with these brokerage firms. In addition, there has been consolidation among brokerage firms. The end result is that the percentage of SMA assets held by a brokerage firm with custody of more than 10% of an adviser's SMA assets has risen to 49.1% in 2023 from 31.8% in 2019.

The value of assets held by a custodian with more than 10% of an adviser's SMA assets increased by 12.9% in 2023, to $34.2 trillion, in line with the rebound in industry assets.

TABLE 6E

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

	2019	2021	2023
Custodian holds 10% or more of SMA assets (% of advisers with SMA assets)	8,244 advisers (81.2%)	9,402 advisers (86.4%)	9,926 advisers (88.4%)
SMA assets held by custodian with 10% or more of SMA assets (% of industry assets)	$25.9 trillion (26.7%)	$33.5 trillion (26.1%)	$34.2 trillion (26.6%)
SMA assets held by custodian with 10% or more of SMA assets that is a related person (% of SMA assets held by a custodian with more than 10% of SMA assets)	$5.4 trillion (20.6%)	$9.9 trillion (29.6%)	$9.8 trillion (28.8%)
SMA assets held by custodian with 10% or more of SMA assets that is a brokerage firm (% of SMA assets held by a custodian with more than 10% of SMA assets)	$8.3 trillion (31.8%)	$14.6 trillion (43.7%)	$16.8 trillion (49.1%)

Proposed Safeguarding Rule

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

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

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

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

To learn more about the proposed rule and the Investment Adviser Association's position on it, read the IAA's comment letter and supplemental comment letter.

Qualified Custodians

In 2023, 322 advisers reported that they or a related person acted as a qualified custodian for client assets, in line with the previous year. Because qualified custodians hold physical custody of assets, they must be a bank, brokerage firm, futures commission merchant, or qualifying foreign financial institution.

Of the related persons acting as a qualified custodian in 2023, 56.9% were able to demonstrate that they were operationally independent of the adviser, which means that they were not required to have a surprise exam.

Disciplinary Information

The percentage of advisers with no disciplinary history was in line with the prior year, at 87.6%.

FIGURE 6I

Advisers With No Disciplinary History

Number of SEC Registered Advisers, Percentage of SEC Registered Advisers

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

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

FIGURE 6J

Larger Advisers Are More Likely to Report Disciplinary Information

Percentage of Advisers

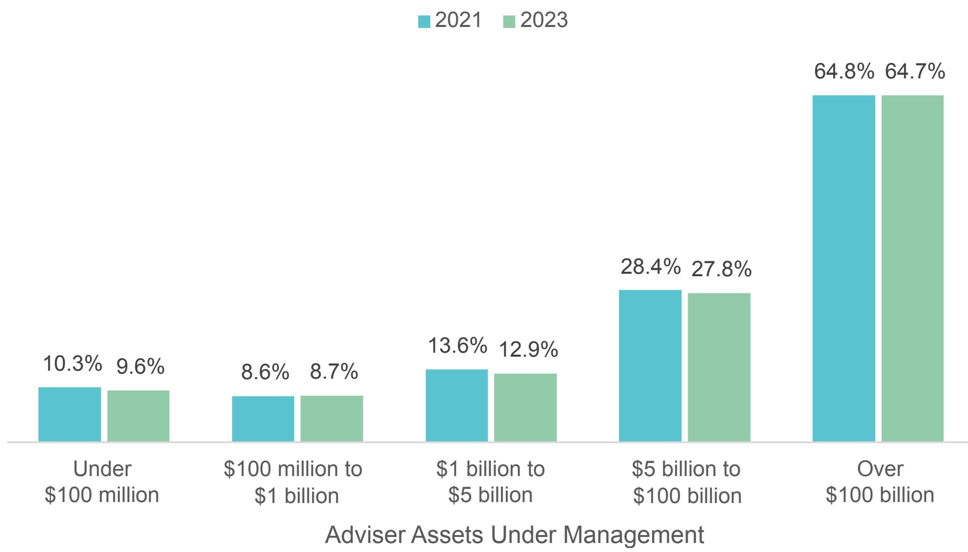


TABLE 6F

Most Common Disciplinary Issues Reported by Advisers

2023

Disciplinary Issue	**Number of Advisers Reporting** *(% of All Advisers)*
A regulator other than the SEC or CFTC found that adviser was involved in a violation of investment-related regulations or statutes	937 (6.1%)
The SEC or CFTC found that adviser was involved in a violation of SEC or CFTC regulations or statutes	713 (4.6%)
The SEC or CFTC imposed a civil money penalty or ordered adviser to cease and desist from any activity	713 (4.6%)
A regulator other than the SEC or CFTC entered an order against adviser in connection with an investment-related activity	710 (4.6%)
The SEC or CFTC entered an order against adviser in connection with an investment-related activity	641 (4.2%)
A self-regulatory organization or commodities exchange found that adviser was involved in a non-minor violation of its rules	626 (4.1%)

Form ADV-W

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

In 2023, 997 advisers filed Form ADV-W, an increase from filings in the previous 2 years.

In each of the past 3 years, advisers were most likely to file Form ADV-W as the result of a transaction. An adviser may have been sold, acquired, or merged with another firm, or its advisory contracts may have been transferred to another firm. These transactions may be reorganizations involving affiliated firms.

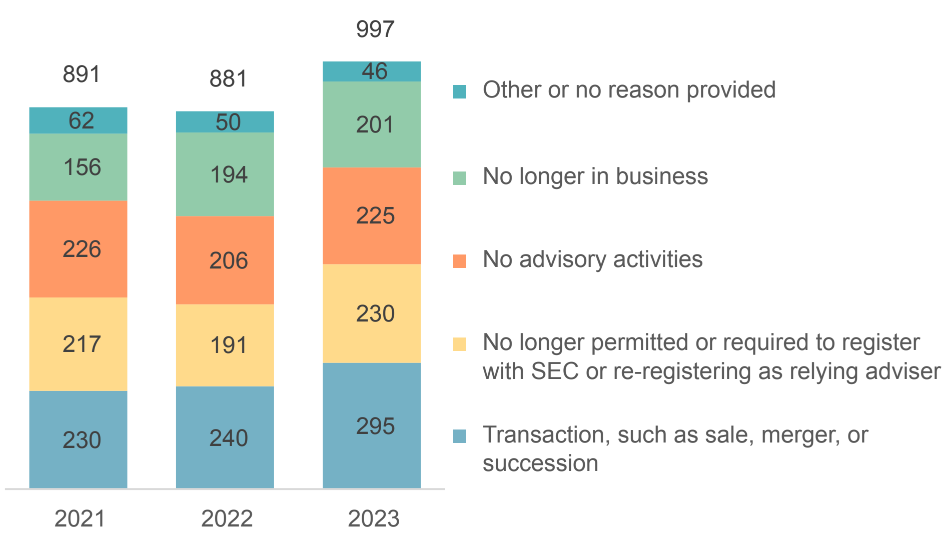
The second-most common reason advisers filed Form ADV-W was because they were no longer permitted or required to register with the SEC. For example, they may no longer advise an investment company, or they may be switching from SEC registration to state registration. Note that, in this category, the Form ADV-W filing may be prompted by the loss of clients or a decline in assets under management.

Advisers may also file Form ADV-W because they did not engage in or are no longer conducting advisory business or because they are no longer in business.

FIGURE 6K

Form ADV-W Filings Increased in 2023

Number of Filings



Note: Calendar year filings.

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 105 firms have passed the 50-year mark (as of June 30, 2024).

FIGURE 6L

A Long-Term View of Industry Growth

Number of Advisers With SEC Registration Effective Prior to Date

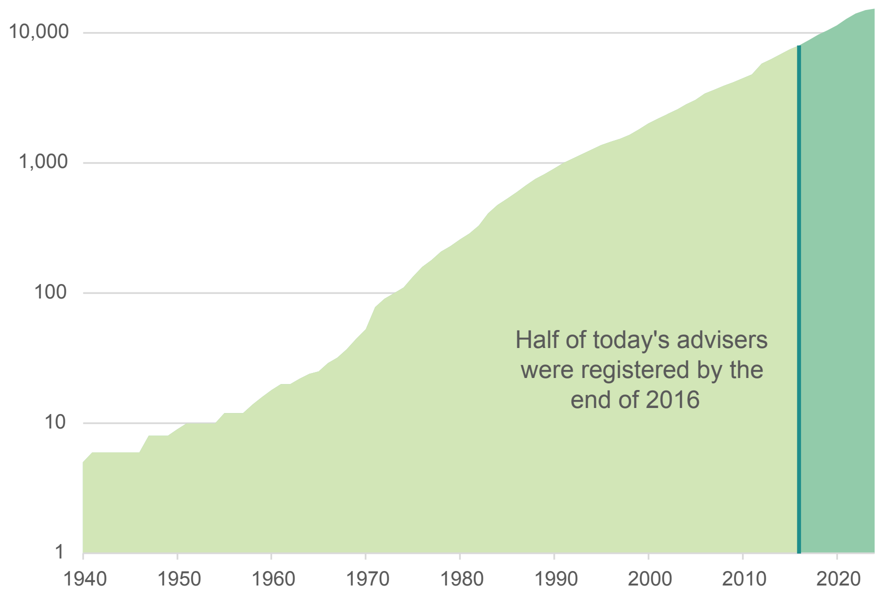


TABLE 6G

Average Age of Advisers by Size

Assets Under Management	Average SEC Registration Effective Date
Over $100 billion	October 1996
$5 billion to $100 billion	September 2006
$1 billion to $5 billion	January 2010
$100 million to $1 billion	August 2014
Under $100 million	February 2017

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

TABLE 6H

The 25 Longest-Tenured Investment Advisers

Investment Adviser	Registration Effective Date
Barings LLC	November 1, 1940
Beck, Mack & Oliver	November 1, 1940
DWS Investment Management Americas, Inc.	November 1, 1940
Everett Harris & Co.	November 1, 1940
St. Denis J. Villere & Co., LLC	November 1, 1940
Howe and Rusling, Inc.	January 3, 1941
T. Rowe Price Associates, Inc.	March 29, 1947
William Blair & Company LLC	December 24, 1947
Bishop & Associates Inc.	March 1, 1950
Meyer Handelman Company LLC	August 19, 1951
Oppenheimer & Co. Inc.	February 9, 1955
Shufro, Rose & Co., LLC	April 7, 1955
Invesco Investment Advisers LLC	April 6, 1958
Fayez Sarofim & Co.	July 16, 1958
Dodge & Cox	March 14, 1959
Baxter Investment Management	May 1, 1959
J.M. Forbes & Co. LLP	May 6, 1960
Argus Investors' Counsel, Inc.	December 16, 1960
The Winthrop Corporation	February 24, 1961
Mairs & Power	November 15, 1961
Pegasus Asset Management Inc.	May 25, 1963
Edward Jones	October 24, 1963
Citigroup Global Markets Inc.	February 23, 1964
Chase Investment Counsel Corporation	March 5, 1964
J.P. Morgan Securities LLC	April 3, 1965

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

Definitions

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

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

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

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

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

borrowings For the purposes of Form ADV, borrowings include:

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

Borrowings exclude:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

hedge fund Any private fund that:

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

high net worth (HNW) individual An individual who is a qualified client as defined in Rule 205-3 of the Investment Advisers Act of 1940 or qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

proprietary product Investment vehicle owned or managed by the adviser.

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

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

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

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

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

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

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

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

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

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

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

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

soft dollar safe harbor Regulatory safe harbor under Section 28(e) of the Securities Exchange Act of 1934 for advisers that use the commission dollars of advised accounts to obtain research and brokerage services.

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

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

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

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

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

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