

# INVESTMENT ADVISER INDUSTRY SNAPSHOT 2021

*EVOLUTION REVOLUTION REIMAGINED*

*Second Edition, July 2021*

**IAA** INVESTMENT ADVISER  
ASSOCIATION

**NRS**<sup>TM</sup>  
» Compliance Confidence



# A Snapshot of the Industry in 2020

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**\$110 trillion**  
in assets

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**60.8 million**  
clients including . . .



**49.7 million**  
asset management clients

**4.6 million**  
financial planning clients

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**13,880**  
SEC-registered  
investment advisers

**95.5%**  
align with clients by  
offering asset-based fees

**87.9%**  
are small businesses  
employing 50 or fewer people

**59.8%**  
manage money for  
individual investors

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The Investment Adviser Association (IAA) is the leading trade association representing the interests of fiduciary investment adviser firms. The IAA's member firms collectively manage more than \$25 trillion in assets for a wide variety of institutional and individual investors. In addition to serving as the voice of the advisory profession on Capitol Hill and before the SEC, DOL, CFTC and other U.S. and international regulators, the IAA provides extensive practical and educational services to its membership. For more information, visit [www.investmentadviser.org](http://www.investmentadviser.org) or follow us on [LinkedIn](#), [Twitter](#) and [YouTube](#).

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# Investment Adviser Industry Snapshot 2021

## *Evolution Revolution Reimagined*

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

We've added more charts and tables and more analysis, to make it easier to see and understand the trends. For those who want to dive into the numbers, we've posted detailed data tables online, in downloadable Excel files.

While the report format has changed, the picture of the industry that we draw from the data has not:

**The investment adviser industry is large and growing.** The number of SEC-registered advisers, the number of clients they serve, the assets they manage, and the number of people they employ all reached record highs in 2020. We've summarized the key statistics on the opening page of this report.

**The industry serves a broad range of clients through a broad range of firms.** The industry provides investment advice to everyone, from Main Street investors to foundations, charitable endowments, governments and sovereign wealth funds. A wide range of firms has evolved to serve these very different types of clients. While most advisers are small businesses, employing 50 or fewer people, the industry also includes advisers with global brand names that employ thousands.

**Investment advisers are aligned with their clients.** Investment advisers are fiduciaries that must act in the best interest of their clients at all times. To align their interests with their clients' interests, almost all advisers offer asset-based fees that increase as the value of client assets rises and decline should the value of client assets fall.

Please let us know what you think about this expanded report. And stay tuned . . . we're planning to keep adding to the insights and analysis in future editions.

### **Karen Barr**

*President & CEO*

Investment Adviser Association

### **John Gebauer**

*President*

NRS



# New and Noteworthy

**Individual investor demand for advice is surging.** The number of individual investors working with advisers grew by 38.0% over the past 2 years. See Figure 2D in Part 2 | Clients for details.

**Private fund assets leveled off in 2020.** Assets in private funds grew just 2.4% in 2020, after years of strong gains. See Figure 5F in Part 5 | Investment Insights for details (and see the Appendix to Part 5 for a close look at private fund operational practices).

**Growth has been strongest for the largest advisers.** Advisers with over \$100 billion in assets have experienced compound annual growth in assets of 13.5% over the past 3 years, far ahead of smaller advisers. See Figure 1F in Part 1 | Size and Growth for details.

**Compensation structures have become increasingly flexible.** Over the past 20 years, advisers have become more likely to offer fixed fees and hourly fees in addition to asset-based fees. See Figure 4B in Part 4 | Compensation for details.

**Advisers are on the move.** Compared to the previous year, in 2020 adviser offices were more likely to be in the South and less likely to be in traditional financial centers. See Figures 3H, 3I and 3J in Part 3 | Employees for details.

# About the Data

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

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

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

More information about Form ADV is available at [sec.gov/about/forms/formadv.pdf](https://sec.gov/about/forms/formadv.pdf).

Notes regarding the data in this report:

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

**Dates.** Investment advisers must file Form ADV with the SEC within 90 days of their fiscal year end.

## Important Change in Data Labeling

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

The *Evolution Revolution* reports labeled data with the date that the Form ADVs were on file with the SEC. For example, data labeled as "2020" in last year's *Evolution Revolution* report was drawn from Form ADVs on file with the SEC as of May 25, 2020.

This *Industry Snapshot* labels data with the date of the information that was reported in those Form ADVs. For example, the information in the Form ADVs on file with the SEC as of May 25, 2020 was almost entirely information from 2019. This data is appropriately compared to 2019 data from other sources. Therefore, the *Industry Snapshot* labels this data as "2019."

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, 2020 must file Form ADV Part 1A by March 31, 2021, reporting data as of December 31, 2020 for most questions and reporting assets under management calculated within 90 days of March 31, 2021.

Data for any given year within this report includes information for all Form ADVs Part 1A filed based on a fiscal year end within that year. For example, data for 2020 includes Form ADVs Part 1A for all firms with a fiscal year end from January 1, 2020 through December 31, 2020, reported in a Form ADV Part 1A which must be filed by March 31, 2021.

Because most advisers have a December fiscal year end, this data is heavily weighted toward calendar year-end information. For example, in 2020, 94.7% of advisers had a December fiscal year end.

The 2020 data in this report is for Form ADVs Part 1A on file with the SEC as of April 8, 2021.

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

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

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

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

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

**Advisers.** The following advisers have been excluded from the data tabulations for the years 2011 through 2020:

- Advisers using certain older versions of Form ADV. In 2020, 14 advisers using versions of Form ADV earlier than the October 2017 version were excluded. These advisers managed \$20.1 billion in assets.

- Advisers no longer eligible for SEC registration, typically because their assets under management have fallen below \$90 million so that they are now required to register with state regulators. In 2020, 91 advisers were no longer eligible for SEC registration. These advisers managed \$3.3 billion.

**Responses.** Assumptions with regard to responses:

- Responses that appear to be in obvious error are excluded from the tabulations.
- For yes/no questions, null responses are assumed to be “no” responses.
- For other questions, null responses are not included in the tabulations.

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

# A Short History of Form ADV

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

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

## **January 2001**

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

## **September 2001**

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

## **December 2002**

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

## **December 2009**

Additional questions about custody are added to Form ADV.

## **June 2011**

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

The calculation of assets under management in Form ADV Part 1 is standardized as “regulatory assets under management.” The new methodology requires advisers to calculate assets on a gross, rather than net, basis and to include assets that were previously excluded (such as 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**

Form ADV Part 1 requires additional data about separately managed accounts. In addition, advisers must disclose more information about their business, including data on clients, social media presence, branch offices, custodians and outsourced chief compliance officers.

Umbrella registrations are permitted by filing new Schedule R.

## **June 2019**

Advisers are required to provide retail clients with Form CRS (Form ADV Part 3) by July 2020. Form CRS provides 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 filing deadline for Form ADV by 45 days.

## **December 2020**

In the new investment adviser marketing rule, the SEC mandates additional questions about marketing practices, to be added to Form ADV in 2022.

## **Technical Amendments**

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

# 1

## Size and Growth

The number of SEC-registered investment advisers and the aggregate assets they managed both reached record highs in 2020.

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**\$110 trillion in assets**

were managed by

**13,880 SEC-registered**

advisory firms in 2020.

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### IN BRIEF

In 2020, assets managed by SEC-registered investment advisory firms increased by 13.2%, while the number of advisers grew by 2.9%.

Over the past 20 years, the growth in the number of SEC-registered advisers has been consistent with economic growth. Growth in average assets under management has been boosted by strong financial market returns.

While 88.5% of investment advisers have less than \$5 billion in assets under management, 92.0% of industry assets are managed by firms with assets under management above \$5 billion. Growth has been strongest for advisers with more than \$100 billion in assets under management.

Over the past seven years, the number of SEC-registered investment advisers has increased, while the number of brokerage firms has declined.

# Firms and Assets

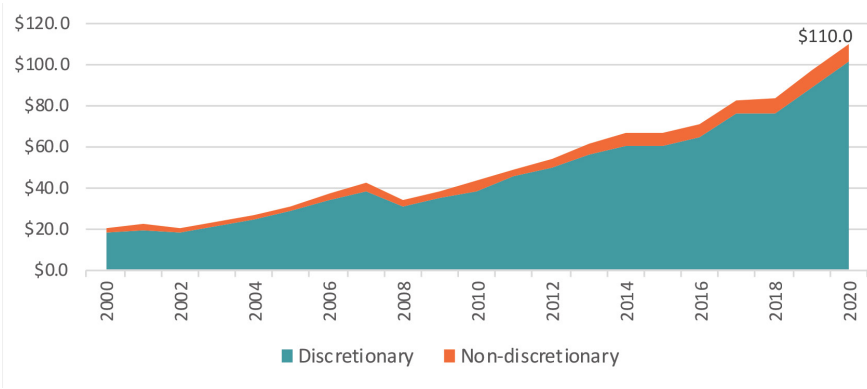
In 2020, assets managed by SEC-registered investment advisory firms increased by 13.2%, reaching a record high of \$110.0 trillion.

Industry assets under management have increased in 18 of the past 20 years. Assets declined in 2002 and 2008 due to market conditions.

As in prior years, almost all assets were managed on a discretionary basis (92.3% in 2020).

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

**FIGURE 1A**  
**Assets Under Management Reached a Record High in 2020**  
Total Industry Assets Under Management, \$ Trillions



In 2020, the number of SEC-registered investment advisory firms increased by 386 firms, or 2.9%, versus the prior year – reaching a record high of 13,880 firms.

The number of SEC-registered firms has increased in 18 of the past 20 years. Registrations declined in 2010 and 2011 when the minimum size threshold for SEC registration increased to \$100 million in assets under management.

The compound annual growth rate in the number of advisers over the 20-year period was 3.2%.

Over two-thirds of advisers (68.9%) are structured as a “pass through” entity (a limited liability company, limited partnership, limited liability partnership or partnership). By contrast, in the year 2000, over two-thirds of advisers were corporations.

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



## A Fiduciary Responsibility to Clients

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

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

An adviser's duty of care includes:

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

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

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

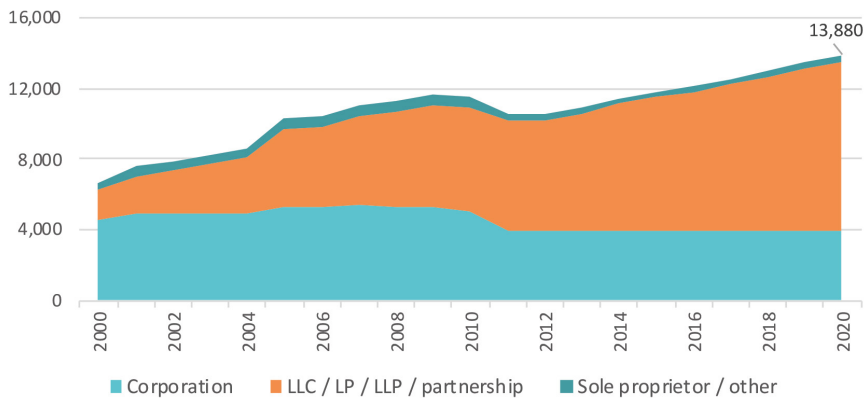
In addition, advisers must ensure that their conflicts do not prevent them from acting in their clients' best interest or otherwise compromise their advice. In some cases, this will require advisers to eliminate conflicts and in others to modify practices to reduce or mitigate conflicts, but advisers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

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

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

**FIGURE 1B****The Number of Advisers Reached a Record High in 2020**

Number of Advisers by Form of Organization



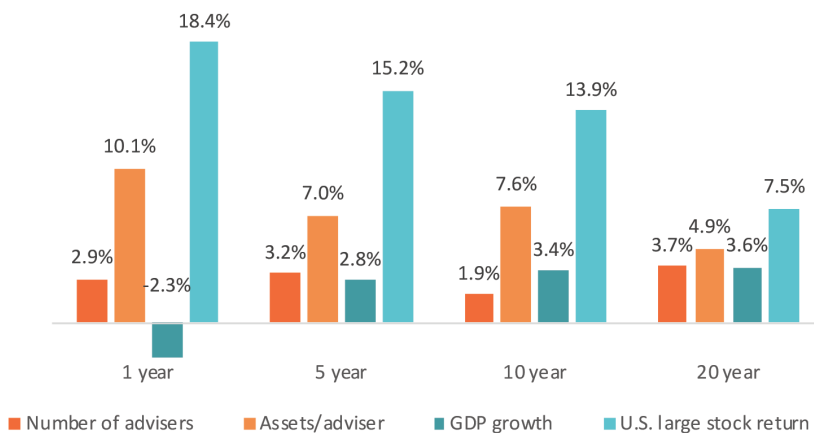
Over the past 20 years, the growth in the number of SEC-registered advisers has been consistent with economic growth as measured by GDP. Growth in average assets under management has been stronger than the growth in the number of advisers, boosted by strong financial market returns, especially stock market returns.

In 2020, both the number of advisers and assets under management per adviser increased, despite the decline in GDP resulting from the pandemic. Industry growth reflected the strength in the stock market.

Note that the 2011 increase in the minimum size threshold for SEC registration depressed the growth in the number of advisers, especially over the 10-year period.

**FIGURE 1C****Economic Growth and Market Returns Drive Industry Growth**

Annualized Growth/Return, Periods Ended 2020



Source: Form ADV Part 1A; Bureau of Economic Analysis; *Stocks, Bonds, Bills, and Inflation*®

# A Varied Industry

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

In 2020, 88.5% of advisers had less than \$5 billion in assets under management, with the majority having between \$100 million and \$1 billion. Over 8 in 10 advisers are small businesses employing fewer than 50 people. (See Part 3 | Employees for more detail.)

Over the past three years, the number of advisers has increased in all size categories except advisers with less than \$100 million in assets under management.

Growth was strongest among firms with over \$100 billion in assets under management. The number of these largest firms grew to 185 from 147 (an annualized increase of 8.0%).

Turning to assets, in 2020, 92.0% of industry assets were managed by firms with more than \$5 billion in assets under management, with almost two-thirds managed by the 185 largest firms.

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

**FIGURE 1D**  
**Most Advisers are Smaller . . .**  
Number of Advisers

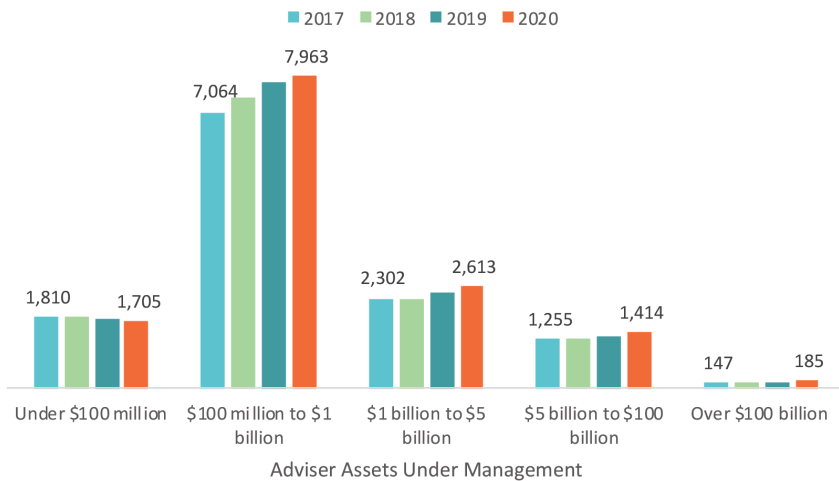
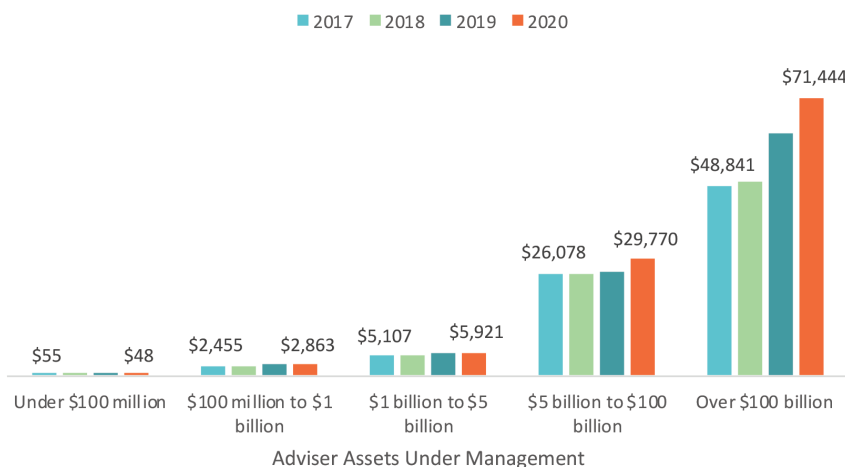


FIGURE 1E

## ... While Larger Firms Manage Most of the Assets

Assets, \$ Billions



Advisers with over \$100 billion in assets have experienced the strongest growth in assets under management over the past three years (with compound annual growth in assets of 13.5%).

These gains are partly the result of firms moving up into this size category. For example, in 2020, 18 advisers were added to the largest size category while 8 advisers dropped out; the net additions contributed 1.8% of the 15.1% gain in assets under management in this category.

However, most growth by the larger firms resulted from market-driven appreciation in the value of assets under management, organic growth (from increased investor demand for products and services offered by these advisers) and merger and acquisition activity. Focusing again on 2020, 13.3% of the 15.1% gain in assets under management in this category was due to these business factors.

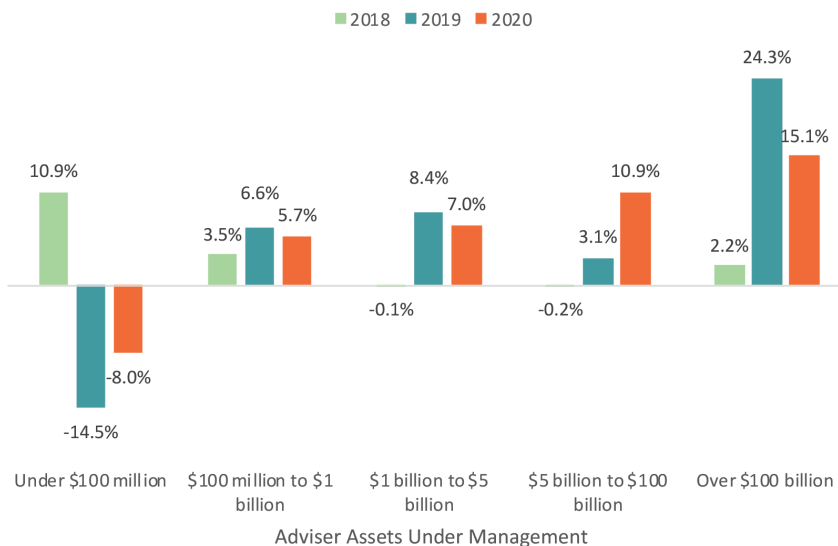
Advisers with \$100 million to \$5 billion in assets under management also experienced growth over the 3-year period ended in 2020 but at a more moderate pace (around 5% annualized).

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

FIGURE 1F

## Asset Growth Has Been Strongest for the Largest Firms

Percentage Change in Assets



## SEC-Registered Advisers in Context

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

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

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

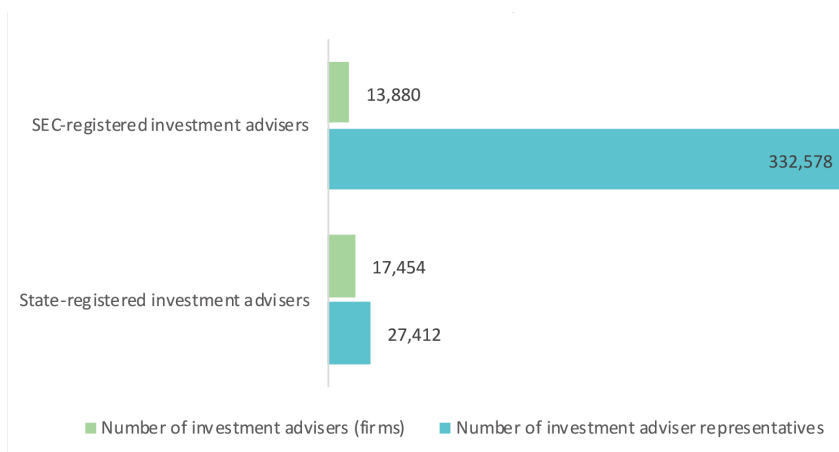
Investment advisers that are not eligible to register with the SEC must register in the states where they have a place of business and/or have more than a *de minimis* number of clients. Though there are fewer SEC-registered advisers than state-registered advisers, they account for most of the assets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

This report focuses on SEC-registered investment advisers. For more information on state-registered advisers, visit [www.nasaa.org/industry-resources/investment-advisers/](http://www.nasaa.org/industry-resources/investment-advisers/).

**FIGURE 1G**

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

Number of Firms, Number of Representatives, 2020



Source: Form ADV Part 1A; NASAA 2020 *Investment Adviser Section Annual Report*

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

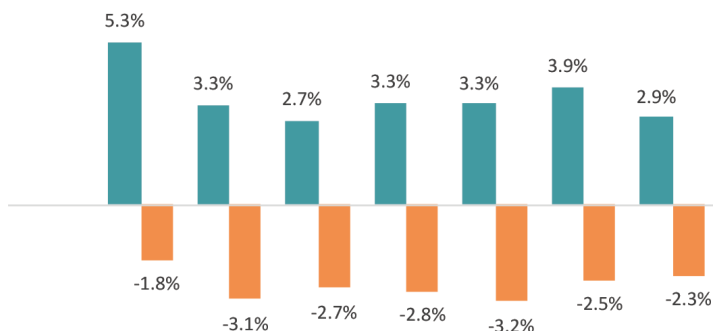
Brokerage firms are not fiduciaries to their clients; instead, they are subject to a standard of conduct known as Regulation Best Interest. Effective June 2020, Regulation Best Interest requires that brokers act in their retail customer's best interest at the time they make a securities recommendation to the customer. Brokers must meet specified disclosure, care, conflicts, and compliance obligations with respect to their customer recommendations.

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

FIGURE 1H

## Diverging Trends / Investment Advisers and Brokerage Firms

Number of Firms



	2013	2014	2015	2016	2017	2018	2019	2020
■ Percentage change in number of investment advisers		5.3%	3.3%	2.7%	3.3%	3.3%	3.9%	2.9%
■ Percentage change in number of brokerage firms		-1.8%	-3.1%	-2.7%	-2.8%	-3.2%	-2.5%	-2.3%
SEC-registered investment advisers	10,895	11,473	11,847	12,172	12,578	12,993	13,494	13,880
Brokerage firms	4,146	4,070	3,943	3,835	3,726	3,607	3,517	3,435

Source: Form ADV Part 1A; 2021 FINRA Industry Snapshot

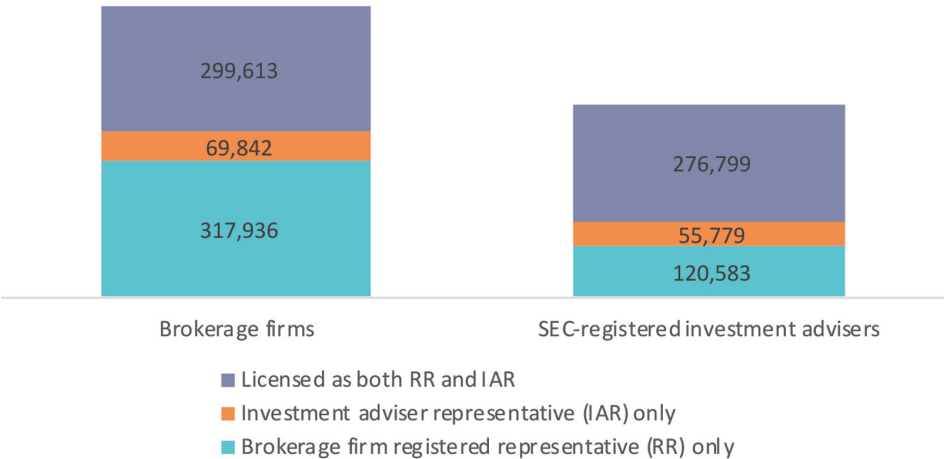
However, brokerage firms are significantly larger with regard to the number of licensed financial professionals. Financial professionals at affiliated brokerage firms and investment advisers are often licensed as a brokerage firm registered representative, an investment adviser representative, or both.

The mix of licensed professionals has been changing. For example, in 2020, the number of investment adviser representatives at brokerage firms increased by 6.6%, while the number of dually-licensed financial professionals increased by 1.0%. By contrast, the number of individuals at brokerage firms who were licensed only as registered representatives declined by -3.4%.

FIGURE 11

# Brokerage Firms Have More Licensed Financial Professionals

Number of Licensed Financial Professionals, 2020



Note: Number of financial professionals at SEC-registered investment advisers licensed as both a brokerage firm registered representative and an investment adviser representative is estimated.

Source: Form ADV Part 1A; 2021 FINRA Industry Snapshot



# 2

## Clients

The number of clients of SEC-registered investment advisers grew 17.2% in 2020, reaching a record high.

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In 2020, investment advisers served

**60.8 million clients**

including 49.7 million asset management clients.

**59.8% of advisers**

managed money for individuals.

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### IN BRIEF

In 2020, the number of clients served by SEC-registered investment advisory firms increased by 17.2%, reaching a record high of 60.8 million.

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

There is a broad range of advisers to serve a broad range of clients. The profile of the typical investment adviser varies significantly with its client focus.

# A Growing Client Base

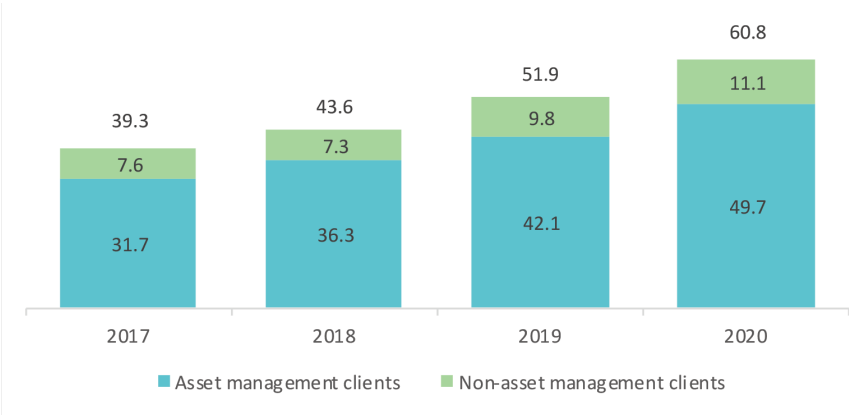
Investor demand for advisory services was strong during the pandemic year. In 2020, the number of clients served by SEC-registered investment advisory firms increased by 17.2%, reaching a record high of 60.8 million.

These clients fell into two categories:

- Asset management clients. Investment advisers managed money for 49.7 million clients in 2020, an increase of 18.0% compared to the previous year.
- Non-asset management clients. These clients did not use asset management services but received other types of investment advice, such as help with developing a financial plan. The number of these non-asset management clients increased by 13.3% in 2020. Over half of the clients in this category were clients of just three firms; all three of these firms provide services to individuals exclusively or primarily through digital platforms.

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

**FIGURE 2A**  
**The Number of Clients Reached a Record High in 2020**  
Millions



## Advisory Services Offered to Clients

The primary service offered by investment advisers is portfolio management. In 2020, 97.0% of advisers offered portfolio management services to one or more groups of clients.

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

The most common of these services is financial planning. In 2020, 42.3% of advisers provided financial planning services, serving approximately 4.6 million clients.

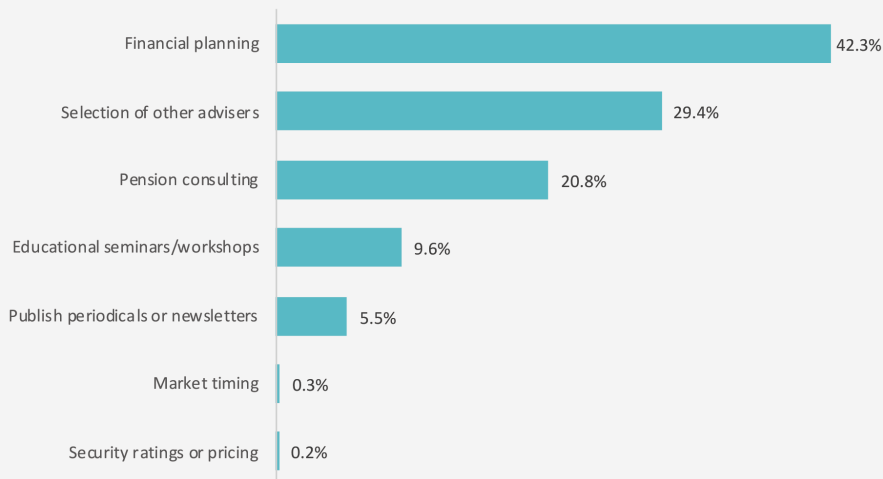
After financial planning, the most common additional services are providing advice on the selection of other advisers (perhaps as part of a sub-adviser relationship) and pension consulting services, which were offered by over 20% of advisers in 2020.

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

**FIGURE 2B**

### Many Advisers Go Beyond Portfolio Management

Percentage of Advisers Offering Service, 2020



# A Broad Range of Clients

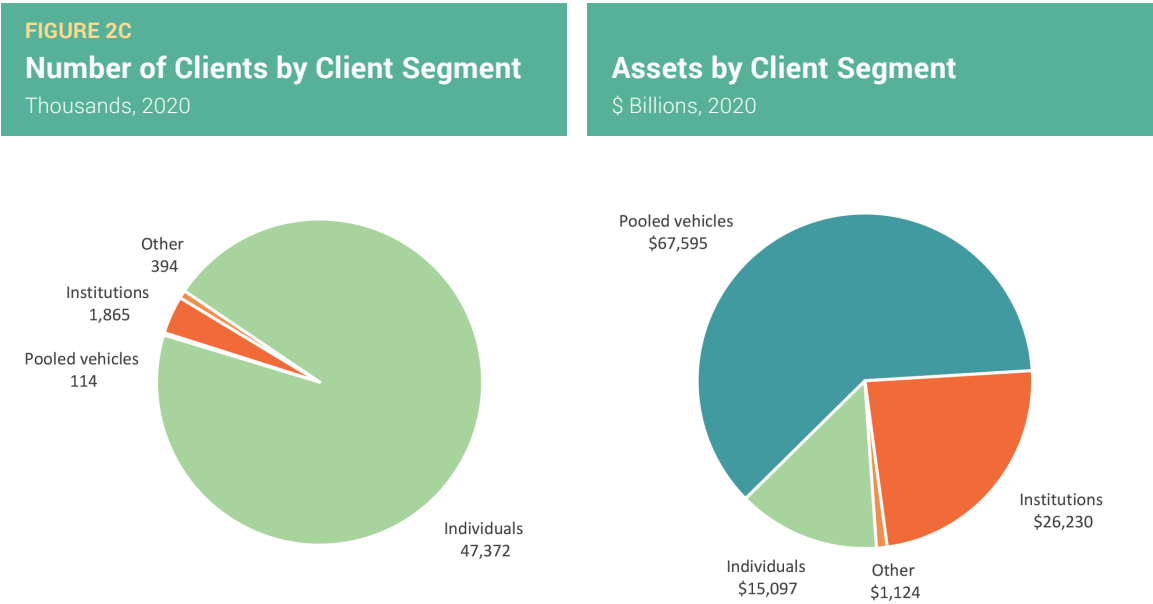
Investment advisers serve three client segments:

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

In 2020, individuals accounted for the largest number of clients (47.4 million). With regard to assets, pooled funds predominated, with \$67.6 trillion in assets, accounting for 61.4% of total assets.

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

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

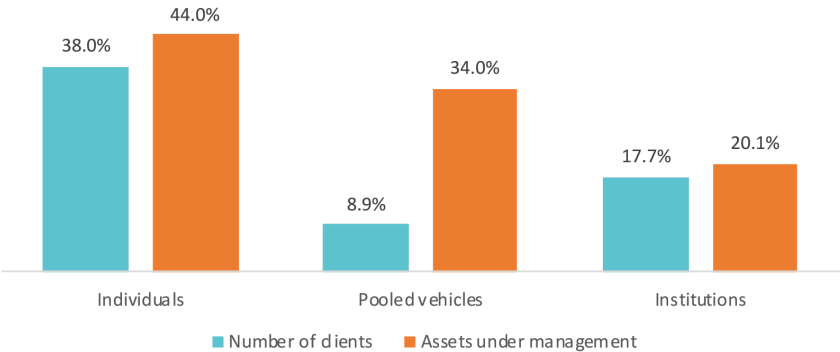


The individual client segment has experienced the strongest growth. Over the past two years, the numbers of clients and assets in this segment have grown at an annualized rate of 17.5% and 20.0%, respectively.

FIGURE 2D

# Growth in the Individual Client Segment Has Been Especially Strong

Percentage Growth, 2 Years Ended 2020



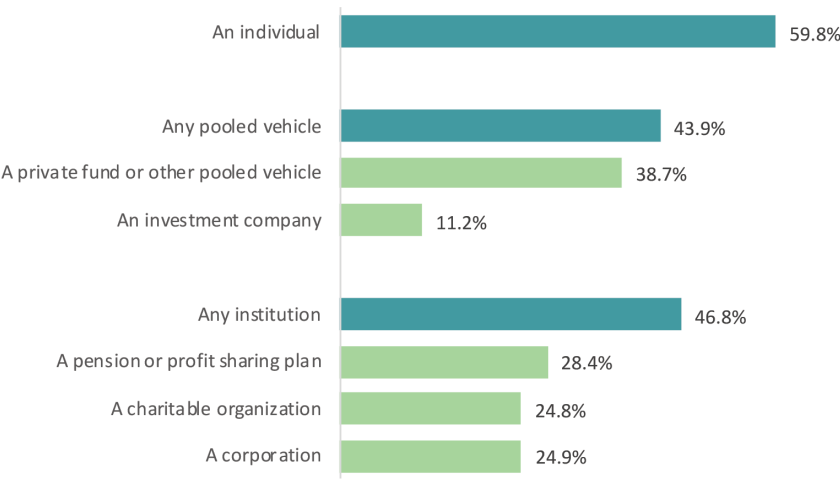
Advisers are most likely to have individual clients. In 2020, 59.8% of advisers served individual clients. Private funds and other pooled vehicles (other than investment companies and business development companies) were the second most common client type, with 38.7% of advisers having clients of that type.

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

FIGURE 2E

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

2020



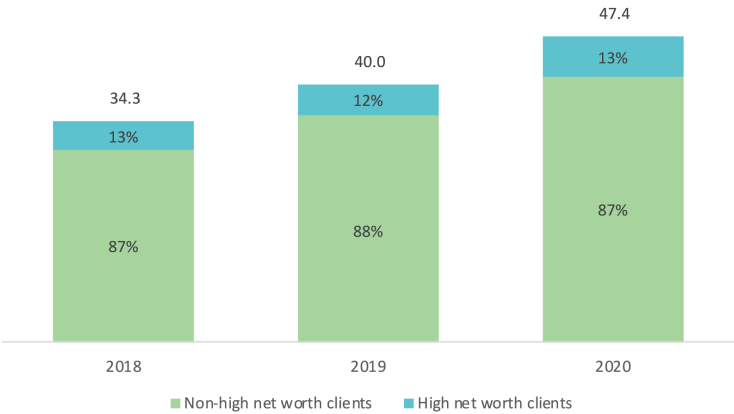
# Individuals

In 2020, investment advisers provided money management services to 47.4 million individual investors.

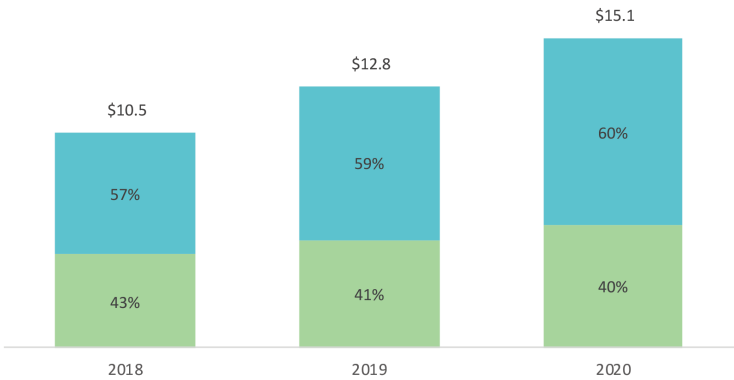
The bulk of these clients (87.1%) were non-high net worth individuals. Generally, these are individuals with less than \$1.0 million in assets under management with an adviser or a net worth of less than \$2.1 million (excluding the value of a primary residence). Note that these threshold amounts were adjusted upward in mid-2021, which will affect subsequent Form ADV filings.

On the other hand, 60.5% of the assets managed for clients in this segment were from high net worth individuals.

**FIGURE 2F**  
**Non-High Net Worth Individuals are the Largest Client Type in Terms of Numbers . . .**  
Number of Clients, Millions



**. . . While High Net Worth Individuals Account for the Majority of Assets**  
Assets, \$ Trillions



## An Increasingly Digital Industry

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

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

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

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

In 2020, 210 firms filed Form ADV using the Internet advice exemption. These firms are small:

- They managed a total of \$13.1 billion in assets, and 115 managed no assets at all.
- The average Internet adviser had a staff of just 6 non-clerical personnel.

Importantly, the presence of digital advice in the industry goes much beyond these 210 firms. Successful digital platforms often stop using the Internet advice exemption, since they are eligible to register with the SEC based on their assets under management. In addition, existing firms with traditional distribution approaches are incorporating digital advice platforms into their services.

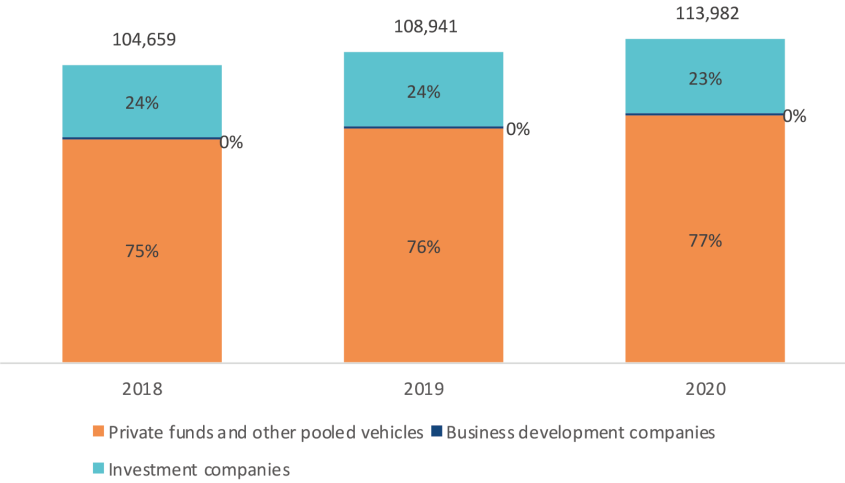
## Pooled Funds

The pooled fund segment includes:

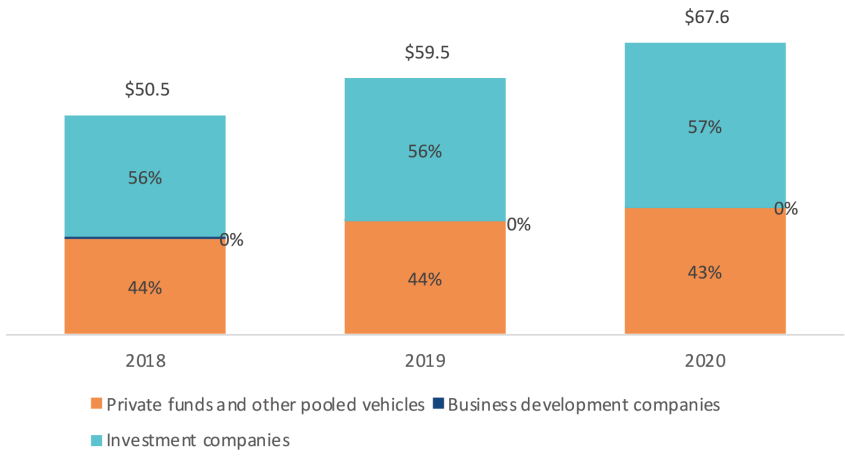
- Investment companies, including traditional open-end funds, closed-end funds and exchange-traded funds (ETFs).
- Business development companies.
- Private funds and other pooled funds, such as private equity funds, hedge funds, and collective investment trusts.

In 2020, investment advisers provided money management services to 113,982 pooled funds with \$67.6 trillion in assets. Private funds and other pooled funds were the most common client type in this segment, while investment companies accounted for over half of assets.

**FIGURE 2G**  
**Private Funds and Other Pooled Vehicles are the Most Common Pooled Client Type . . .**  
Number of Clients



**. . . But Investment Companies Account for Over Half of Assets**  
Assets, \$ Trillions





## Institutions

The institutional segment includes:

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

Half of the clients in this segment are other investment advisers. In these relationships, one investment adviser directs client assets to be managed by another investment adviser, maybe as a sub-adviser or through a managed account or model portfolio arrangement.

Over the two years ended 2020, the number of investment adviser clients grew at an annualized rate of 12.5%, with the highest rate of growth in the institutional client segment. Interestingly, the average number of investment adviser clients is very high; the 566 investment advisers that report having other investment advisers as clients have a total of 938,945 other investment advisers as clients, or 1,659 each, on average.

This strong growth in the number of investment adviser clients seems most likely the result of the increasing popularity of model portfolios as a basis for managing portfolios for individual investors. Model portfolio use would also account for the high average number of clients, since the same model portfolio can be used by multiple investment advisers.

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

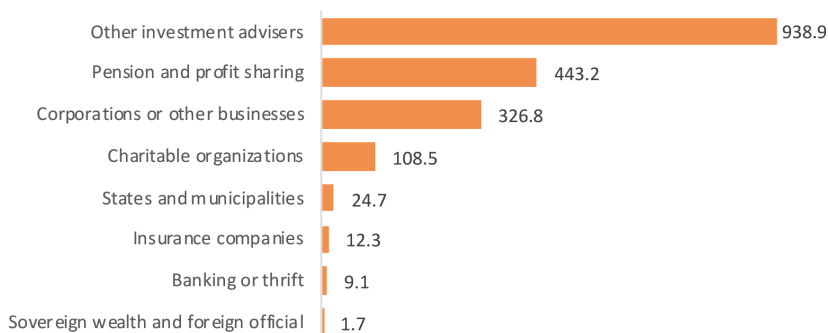
The second most-common client type in the institutional segment is pension and profit sharing plans, accounting for almost one-quarter of clients. Corporations and other businesses ranked third, with almost one-fifth of clients in this segment.

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

FIGURE 2H

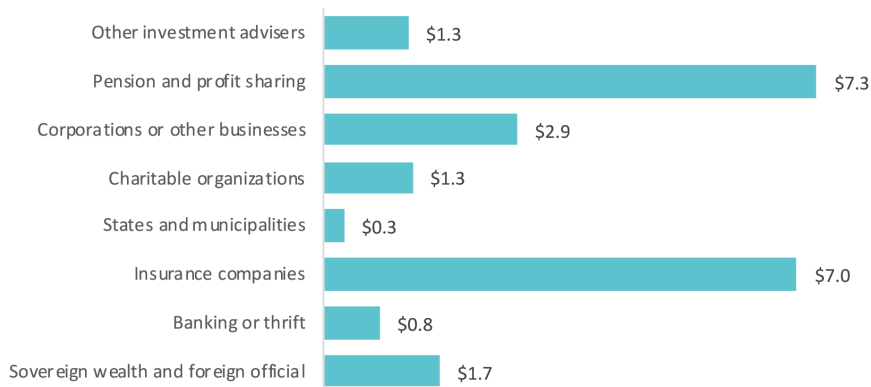
## Institutional Clients are Concentrated in a Few Client Types . . .

Number of Clients, Thousands, 2020



## While Their Assets are More Evenly Distributed . . .

Assets, \$ Trillions, 2020



# A Global Industry

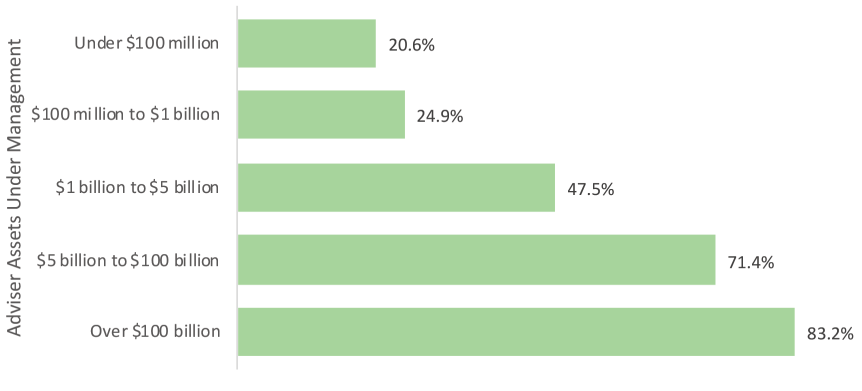
Many SEC-registered investment advisers provide services to clients outside the United States.

In 2020, 34.1% of advisers reported providing money management services to at least one non-U.S. client, a slight decrease versus 2019 (34.8%) and 2018 (35.8%). Assets from non-U.S. clients were \$28.0 trillion or approximately one-quarter of total assets.

For advisers with non-U.S. clients, on average, 40.1% of clients and 39.0% of assets were sourced outside the United States in 2020.

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

**FIGURE 2I**  
**Advisers of All Sizes Have Non-U.S. Clients**  
Percentage of Advisers with Non-U.S. Clients, 2020



# A Broad Range of Firms

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

For example, advisers that manage money primarily for individuals are likely to be small businesses with, on average, 9 employees, 2 offices, and under \$400 million in assets under management.

On the other hand, the average adviser serving all 3 client segments is much larger, with 289 employees, 20 offices, and \$47.4 billion in assets under management.

In 2020, over 85% of advisers fell into one of the following 4 categories in terms of client focus:

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

TABLE 2A The Typical Adviser Profile Varies with Client Focus 2020	
<b>Individuals, Pooled Vehicles, and Institutions</b> <ul style="list-style-type: none"><li>• 601 firms</li><li>• \$47.4 billion assets under management</li><li>• 289 employees</li><li>• 20 offices</li><li>• 19,904 individual clients</li><li>• 32 pooled fund clients</li><li>• 597 institutional clients</li></ul>	<b>Individuals and Institutions</b> <ul style="list-style-type: none"><li>• 2,186 firms</li><li>• \$4.3 billion assets under management</li><li>• 146 employees</li><li>• 48 offices</li><li>• 9,175 individual clients</li><li>• 623 institutional clients</li></ul>
<b>Pooled Vehicles</b> <ul style="list-style-type: none"><li>• 4,663 firms</li><li>• \$7.4 billion assets under management</li><li>• 40 employees</li><li>• 2 offices</li><li>• 3 individual clients</li><li>• 11 pooled fund clients</li><li>• 1 institutional client</li></ul>	<b>Individuals</b> <ul style="list-style-type: none"><li>• 4,634 firms</li><li>• \$355 million assets under management</li><li>• 9 employees</li><li>• 2 offices</li><li>• 3,129 individual clients</li><li>• 2 institutional clients</li></ul>

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

In 2020, 87.1% of advisers were included in this categorization.

## Communicating with Clients

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

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

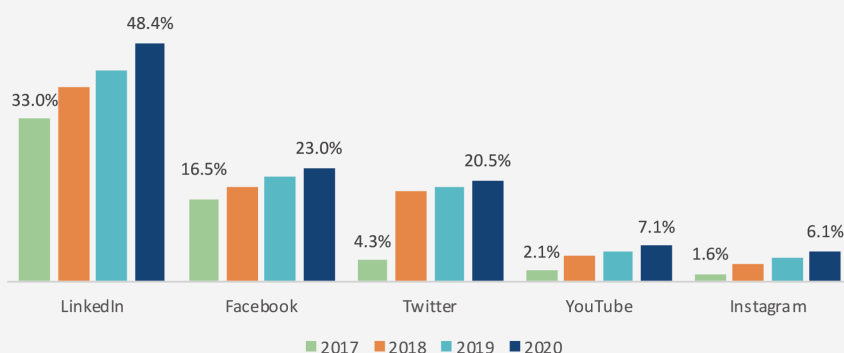
Social media use continued to increase in 2020. Among the social media platforms, LinkedIn was most likely to be used by advisers, followed by Facebook and Twitter.

Only 10.0% of advisers reported no web presence in 2020.

**FIGURE 2J**

### Advisers' Social Media Use Continues to Climb

Percentage of Advisers with Presence on Platform



Note: Most common social media platforms. Excludes Vimeo and SoundCloud.



# 3

## Employees

Employment in the industry reached a record high in 2020.

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In 2020, SEC-registered investment advisers

**employed 879,755 non-clerical staff.**

**87.9% of firms**

were small businesses employing 50 or fewer people.

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### IN BRIEF

In 2020, employment in the investment adviser industry reached a record high of 879,755 non-clerical staff. Employment growth has been strongest in firms with more than \$100 billion in assets.

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

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

Growth in the number of investment advisers has been strongest in the South and the West. In the pandemic year, advisers were less likely to be located in traditional financial centers.

# A Growing Employer

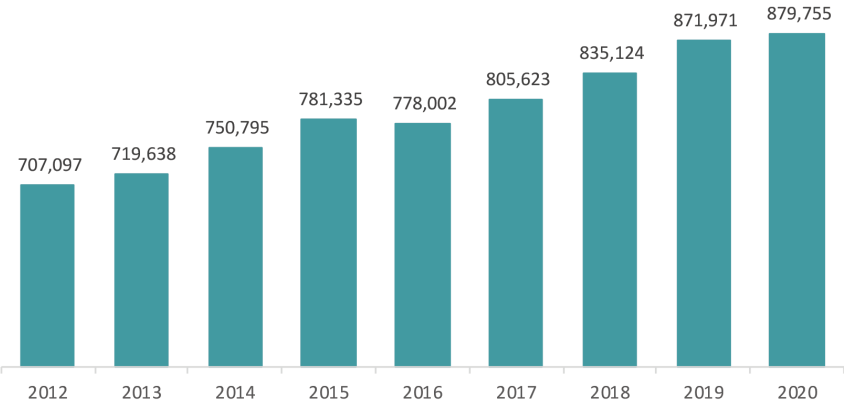
In 2020, employment in the investment adviser industry reached a record high. The number of non-clerical employees rose by 7,784 to 879,755. This was the fourth consecutive year of increases in the number of jobs in the industry.

Over half of these employees were engaged in performing investment advisory functions. A significant proportion were registered with regulatory authorities as registered representatives of a broker-dealer, investment adviser representatives, or licensed insurance agents.

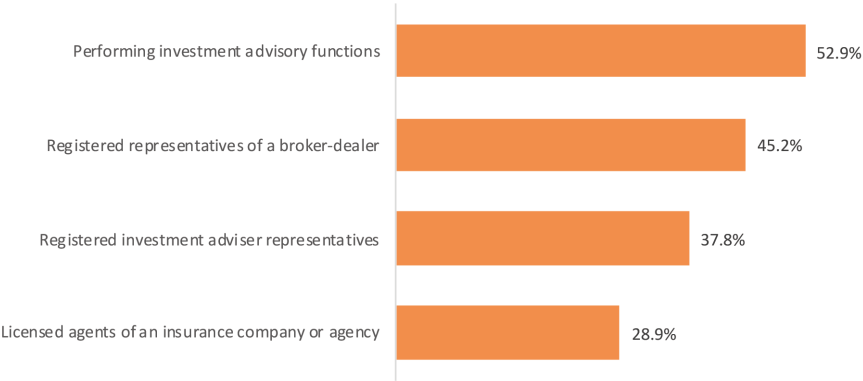
Note that requirements for reporting the number of employees in Form ADV were changed in 2011. Responses for 2011 have been excluded because of apparent errors that significantly affected the total number of employees.

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

**FIGURE 3A**  
**The Number of Non-Clerical Employees Reached a Record High in 2020**



**FIGURE 3B**  
**Percentage of Non-Clerical Employees Who Are . . .**



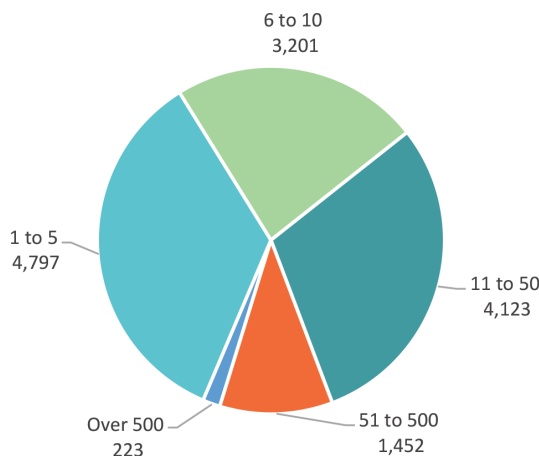


# An Industry of Small Businesses

Most SEC-registered advisers are small businesses, employing 50 or fewer people (87.9% in 2020). Only 1.6% had a workforce of over 500 people. The median investment adviser employed 8 people.

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

**FIGURE 3C**  
**Most Advisers are Small Businesses**  
Number of Advisers by Number of Non-Clerical Employees, 2020



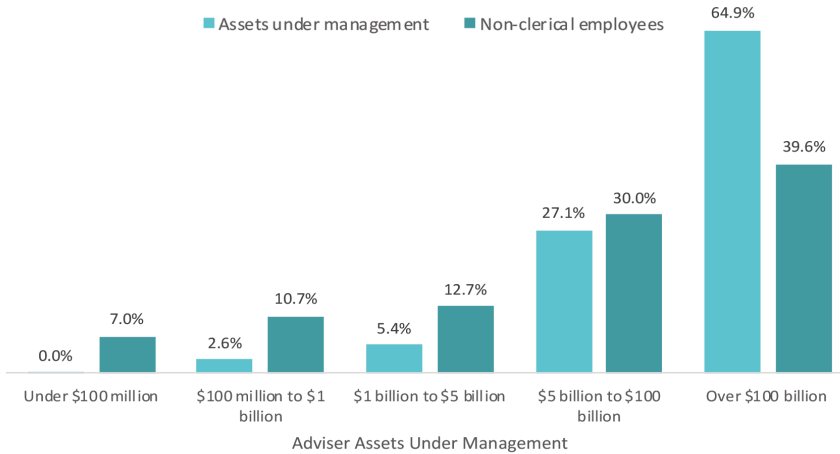
Note: Excludes advisers reporting zero employees.

Advisers with less than \$100 billion in assets under management accounted for a disproportionately high percentage of industry employment relative to their assets under management. For example, advisers with \$1 billion to \$5 billion in assets under management (18.8% of firms) managed 5.4% of total industry assets but accounted for 12.7% of employment.

FIGURE 3D

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

2020

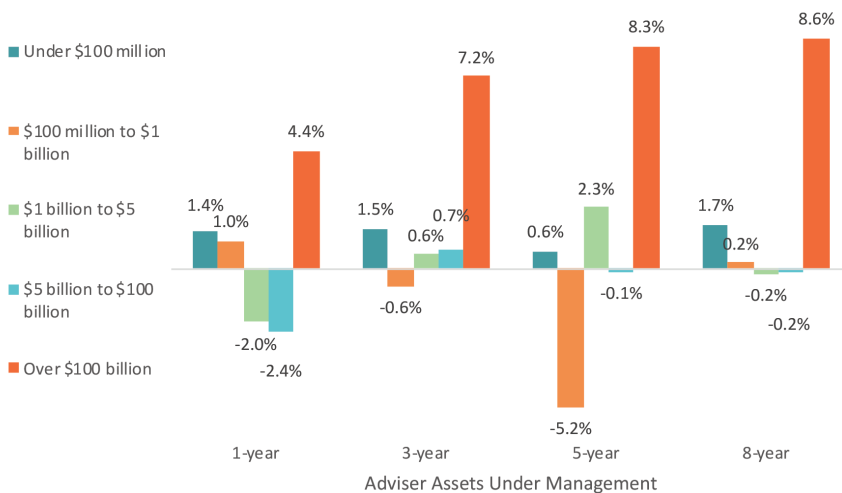


Growth in employment has been strongest at the largest and the smallest firms. Over the past eight years, non-clerical employment rose 8.6% annually at firms with over \$100 billion in assets under management and 1.7% annually at firms with less than \$100 million in assets under management. Employment at firms in the intermediate size categories was largely unchanged over the period.

FIGURE 3E

## Employment Growth is Strongest at the Largest and the Smallest Firms

Annualized Change in Number of Non-Clerical Employees, Periods Ended 2020



## Branch Offices

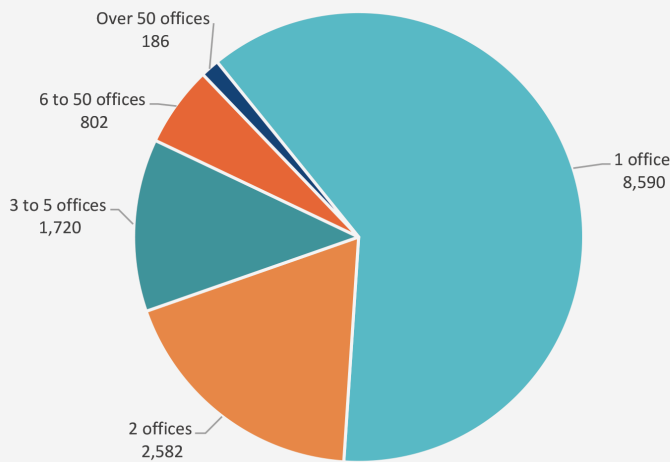
The majority of investment advisers operate from a single office. In 2020, 11,172 advisers (80.5%) had only 1 or 2 offices.

Only 7.1% of advisers had 6 or more offices, with only 1.4% having over 50 offices.

**FIGURE 3F**

### The Majority of Investment Advisers Operate from a Single Office

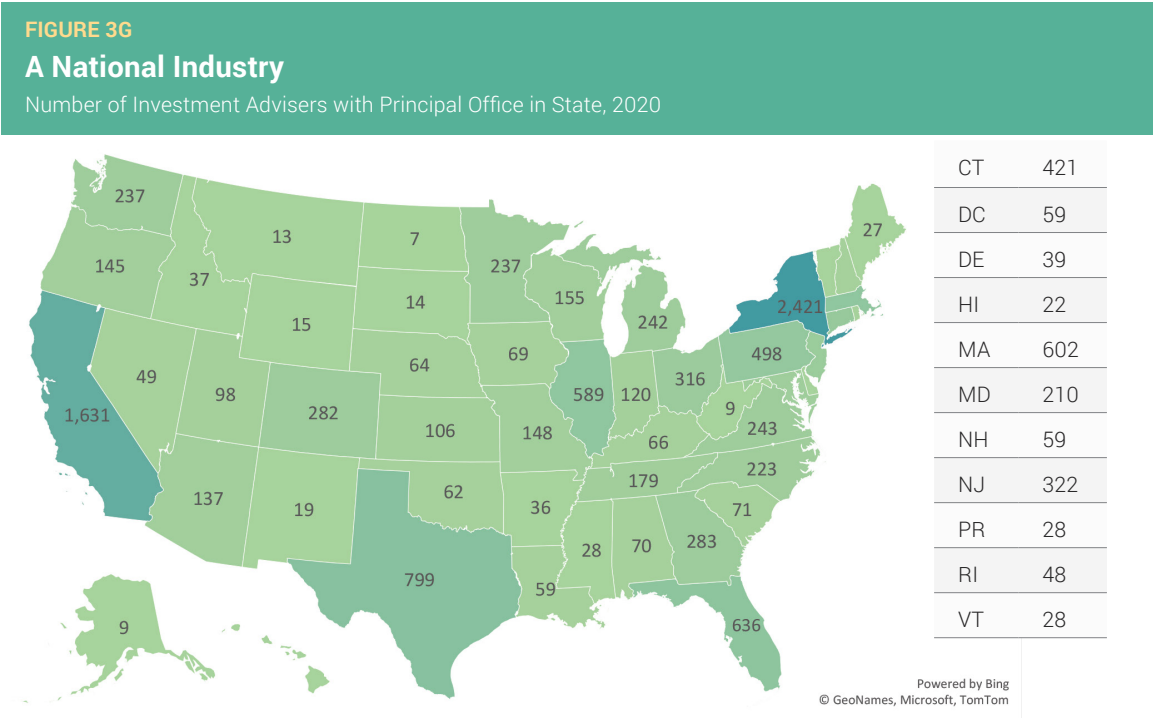
Number of Advisers by Number of Offices, 2020



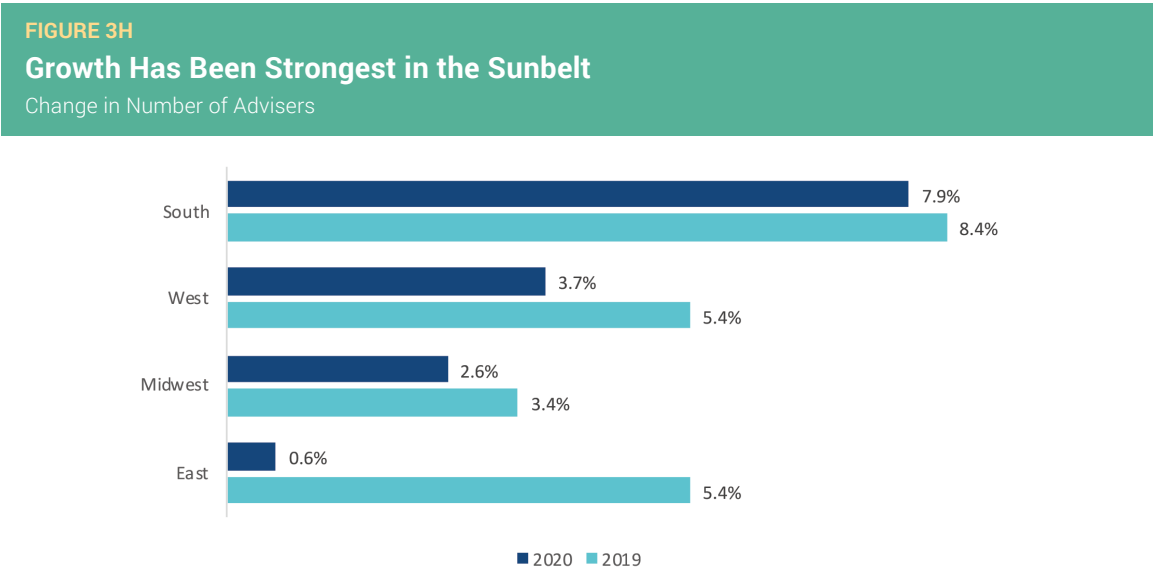
# A Wide Geographic Scope

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

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



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



Note: SEC regions. Washington, DC included in Eastern region.

More granularly, advisers were less likely to be located in traditional financial centers during the pandemic. The number of advisers in New York and Illinois fell in 2020.

Other states saw increases in the number of advisers. For example, the number of advisers in Florida increased significantly. As a result, Florida moved up 2 places in the list of top 10 states, to number 4.

**FIGURE 3I**  
**During the Pandemic Year, Advisers Moved Out of Traditional Financial Centers**  
Largest State Losses/Gains in Number of Advisers, 2020

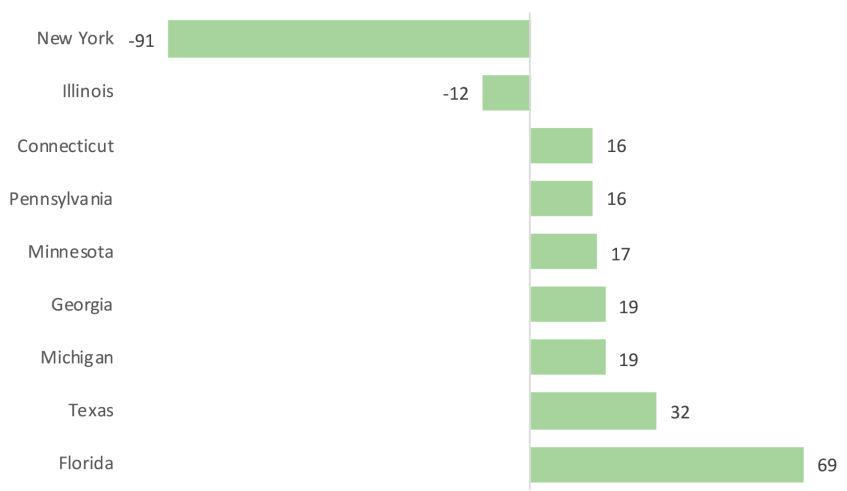


TABLE 3A Number of Advisers in Top 10 States			
State	2018	2019	2020
New York	2,449	2,512	2,421
California	1,585	1,630	1,631
Texas	713	767	799
Florida	509	567	636
Massachusetts	592	604	602
Illinois	586	601	589
Pennsylvania	461	482	498
Connecticut	419	405	421
New Jersey	328	319	322
Ohio	305	305	316

More advisers are reporting offices located in private residences.

<b>TABLE 3B</b> <b>Offices Located in Private Residences</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Principal Offices	486	537	724
% of Principal Offices	3.7%	4.0%	5.2%
Branch Offices	2,178	2,505	3,002
% of Branch Offices	10.8%	11.4%	13.1%
% of Total Offices	8.0%	8.6%	10.1%

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

<b>TABLE 3C</b> <b>Number of Advisers in Top 10 Countries Outside the United States</b>			
<b>Country</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
United Kingdom	287	270	282
Canada	121	127	131
Hong Kong	76	80	79
Switzerland	71	64	62
Singapore	39	42	41
Australia	30	34	37
China	36	35	31
Japan	18	21	22
Ireland	14	14	16
Brazil	17	17	15

# 4

## Compensation

Asset-based fee structures serve to align adviser interests with client interests.

---

# 95.5%

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

# 44.9% of advisers

offer clients a fixed fee.

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### IN BRIEF

Almost all SEC-registered advisers (95.5%) offer clients a fee based on a client's assets under management; the asset-based fee structure serves to align adviser interests with client interests. Advisers generally offer asset-based fees in combination with other fee types.

Over the past 20 years, asset-based fees have become more common, while transaction-based fees (commissions) have become less common. Advisers have also become significantly more likely to offer performance fees and fixed fees.

Adviser interest and participation in many client-related transactions has declined over the past nine years. Advisers are less likely to recommend proprietary products. The percentage of advisers receiving soft dollar research reached a new low in 2020. Advisers are less likely to have affiliated brokerage firms and to engage in transactions involving those affiliated firms.

# Alignment with Client Interests

Adviser compensation structures align adviser interests with client interests.

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

However, only 17.4% of advisers offer asset-based fees alone. Most advisers offer asset-based fees along with other types of fees, such as fixed fees, performance fees, and hourly charges. Most commonly, advisers offer both an asset-based fee and a performance fee; 24.5% of advisers offer only these two fees.

Only 4.5% of advisers do not offer an asset-based fee. Approximately one-half of these advisers include a fixed fee as one of their fee offerings.

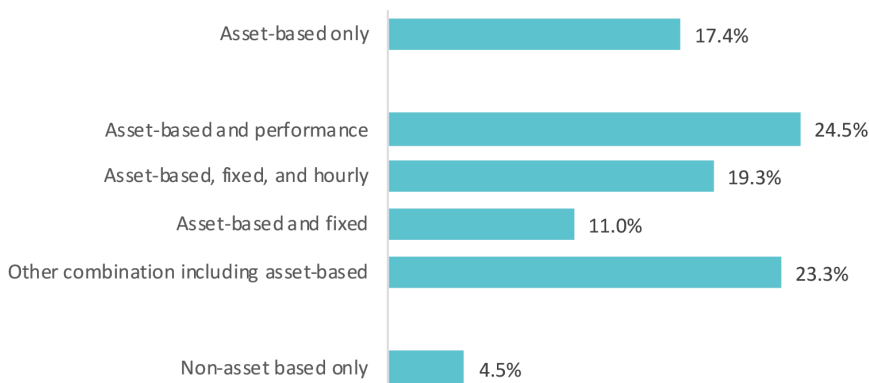
TABLE 4A Asset-Based Fees are the Most Common Form of Compensation Offered Percentage of Advisers Offering Fee Type, 2020	
Fee Type	% of Advisers
Asset-based	95.5%
Fixed	44.9%
Performance	36.3%
Hourly	29.7%
Other	14.1%
Commissions	2.6%
Subscription	1.0%



**FIGURE 4A**

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

Percentage of Advisers Offering Fee Type, 2020



Over the past two decades, asset-based fees have become more common (+9.6%), while transaction-based fees (commissions) have become less common (-8.3%). In fact, in 2020, only 2.6% of advisers charged commissions. (Note that, to be able to offer commissions as a fee option, investment advisers must be dually registered as a brokerage firm or sell insurance products such as fixed annuities.)

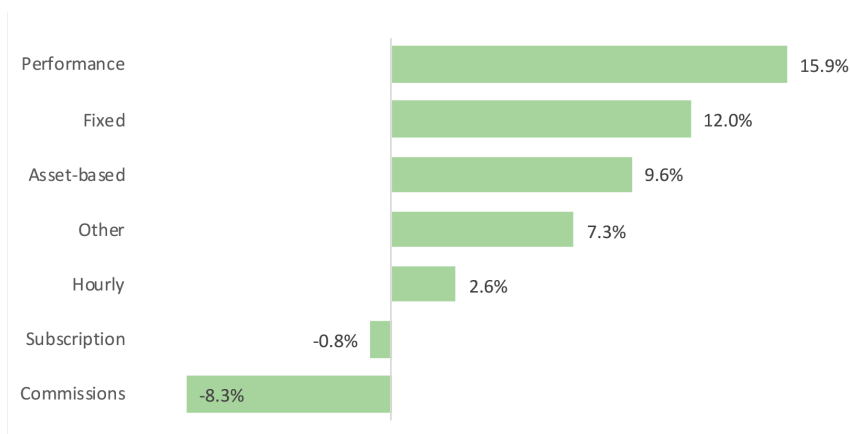
Adviser fee structures have become more flexible to better respond to client needs. Compared with advisers 20 years previously, advisers in 2020 were significantly more likely to offer performance fees and fixed fees. (Note that advisers may only offer performance fees to “qualified clients” who have assets or net worth above a specified threshold.)

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

**FIGURE 4B**

## Compensation Arrangements Have Evolved

Change in Percentage of Advisers Offering Fee Type, 2020 vs. 2000



# Interest and Participation in Client Transactions

Advisers may have a financial interest in or participate in client-related transactions. Form ADV requires that advisers disclose these interests or participations, which may generate additional revenue for the adviser or allow the adviser to reduce expenses.

These conflicts fall into four broad categories:

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

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

TABLE 4B Interest and Participation in Client-Related Transactions (Except Trading-Related) Percentage of Advisers		
	2011	2020
Interest in Investments Recommended to Clients		
Recommend proprietary product	27.4%	21.0%
Recommend securities underwritten by related broker	25.7%	17.4%
Sales interest in recommended investments	11.6%	8.7%
Investments in Recommended Securities		
Buy or sell securities recommended to clients	75.6%	77.1%
Soft Dollar Research		
Receive soft dollar research	46.3%	38.8%

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

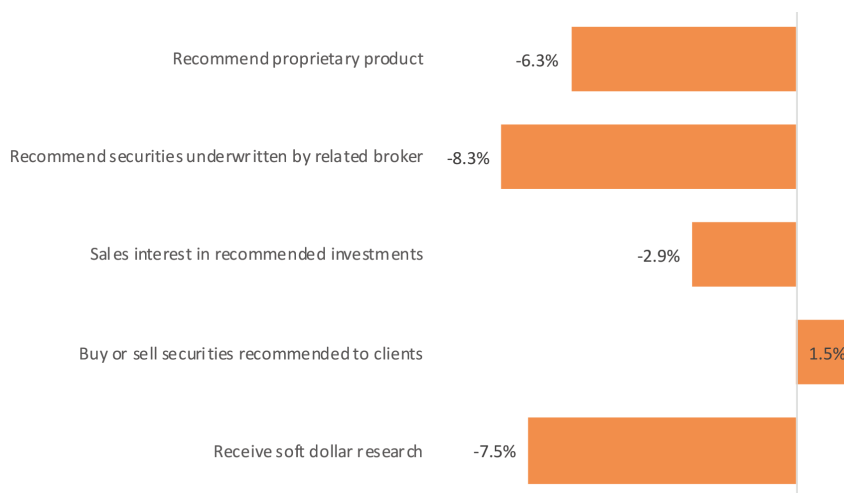
Buying or selling securities recommended to clients is the most common interest or participation in non-trading transactions. In 2020, 77.1% of advisers reported that their firm, their employees, or other related parties engage in this practice. Use of soft dollar research is also common, with 38.8% of advisers using client commissions to purchase research or brokerage services, generally relying on the “safe harbor” under Section 28(e) of the Exchange Act.

The prevalence of these practices has declined over the past nine years, with the exception of buying and selling securities recommended to clients.

**FIGURE 4C**

## Advisers' Interest and Participation in Client Transactions is Declining

Change in Percentage of Advisers, 2020 vs. 2011



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

The percentage of advisers that recommend securities underwritten by a related brokerage firm declined by -8.3% from 2011 to 2020. This decline at least partly reflects a decrease in the percentage of firms with affiliated brokerage firms. In 2020, only 16.8% of firms had affiliated brokers, down from 22.5% in 2011.

Advisers have also become less likely to recommend proprietary products (meaning investment vehicles that are owned or managed by the adviser or an affiliate and therefore generate revenue for the adviser or an affiliate). The percentage of advisers offering these products fell to 21.0% in 2020 from 27.4% in 2011. Similarly, the percentage of advisers with a sales interests in recommended investments declined by -2.9%.

The percentage of advisers using client commissions to purchase soft dollar research declined by -7.5% since 2011 to a new low of 38.8% in 2020. Advisers have been reducing their use of soft dollar research for several reasons. Equity commission rates have fallen, which makes fewer soft dollars available. Regulatory action in Europe has made the use of soft dollars more cumbersome for advisers with European clients. Finally, clients increasingly prefer that advisers not use soft dollars. Note that almost all advisers receiving soft dollar research report that the research is eligible for the “safe harbor” under Section 28(e) (93.2% of advisers receiving soft dollar benefits in 2020).

By contrast, the percentage of firms buying or selling securities recommended to clients increased over the nine-year period, to a new high of 77.1%. Investments in securities recommended to clients creates the risk of conflicts of interest, such as the risk that a related party will “front run” client transactions. However, these investments can align adviser interests with client interests, especially if portfolio managers are investing alongside their clients.

**TABLE 4C****Interest and Participation in Trading Transactions**

Percentage of Advisers

	<b>2011</b>	<b>2020</b>
Engage in principal transactions with clients	8.7%	8.0%
Use or recommend affiliated broker for client transactions	10.8%	7.3%
Execute agency cross transactions for clients	4.9%	2.8%
Have discretionary authority to determine client securities to be bought and sold	91.9%	93.9%
Have discretionary authority to determine amount of client securities to be bought and sold	91.8%	93.8%
Determine or recommend broker for client transactions	90.5%	91.6%
Have discretionary authority to determine commission rate on client transactions*	88.6%	81.1%

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

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

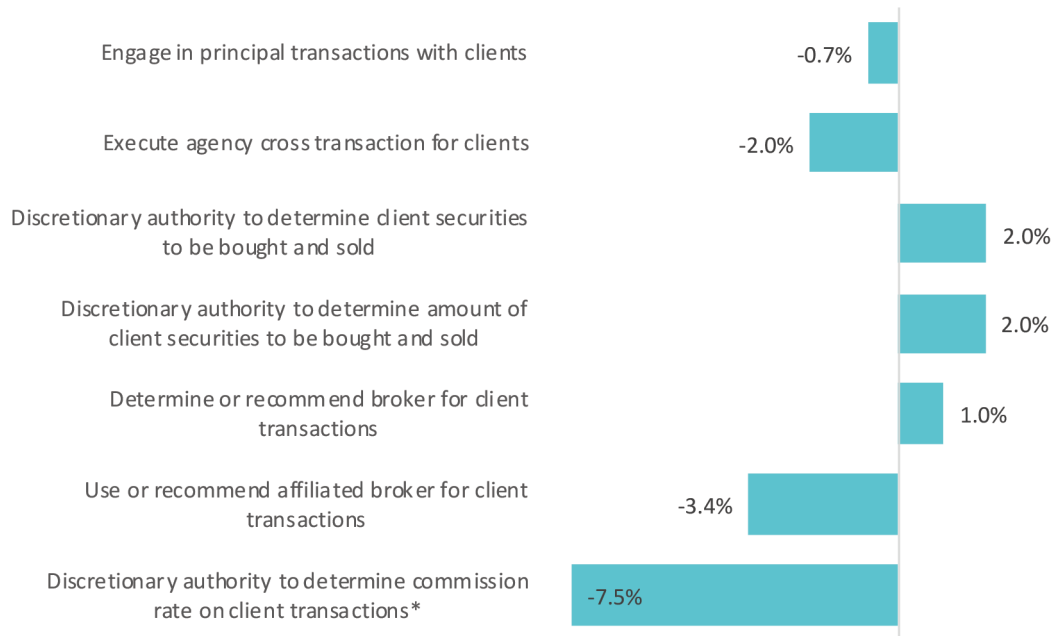
Advisers continue to play an important role in arranging purchase and sales transactions in their clients' portfolios. Arranging transactions is part of the portfolio management services that most investment advisers provide.

In 2020, over 90% of advisers had discretionary authority to determine which client securities to buy and sell. Over 90% either determined or recommended the brokerage firm to be used to execute those buys and sells, and, of those firms, over 80% had the discretionary authority to determine the commission rate to be paid on those transactions.

FIGURE 4D

# Advisers' Interest and Participation in Trading Transactions Has Been Generally Stable

Change in Percentage of Advisers, 2020 vs. 2011



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

Adviser involvement in client trading has remained relatively stable over the past nine years. The number of advisers using or recommending affiliated brokerage firms has declined, reflecting the decline in the share of advisers with affiliated brokerage firms. However, the percentage of advisers with the discretionary authority to determine the commission rate on client transactions has fallen sharply. This may be the result of changes in equity market structure and the decline in commission rates, particularly among custodians that provide trading platforms and other services for investment advisers.



# 5

## Investment Insights

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

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# 73.1%

of SEC-registered advisory firms manage money for individuals and institutions in separately managed accounts.

In 2020, there were

# 43,474 private funds.

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### IN BRIEF

In 2020, 73.1% of advisers managed separately managed accounts for individuals and institutions. Smaller advisers are less likely to invest in bonds in these accounts and more likely to invest in registered funds and equities. Larger advisers are more likely to use derivatives and borrowings in these accounts.

Growth in wrap fee program assets has been strong. Annual growth over the three-year period ended in 2020 was 16.5%.

In 2020, 35.7% of advisers managed private funds with \$19.7 trillion in total assets. Growth in assets under management moderated in 2020. Private equity funds and hedge funds are the most common types of private funds.

Compared with 2018, advisers in 2020 were somewhat less likely to offer advisory services to registered funds, participate in a wrap fee program, or advise private funds. There was no significant change in the percentage of advisers with separately managed accounts.

**FIGURE 5A**

## Advisers are More Likely to Have Separately Managed Accounts

Percentage of Advisers



## Separately Managed Accounts (SMAs)

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

In 2020, 10,153 advisers managed SMA assets (73.1% of all advisers, in line with the previous year).

The investment approach for separately managed accounts differs significantly between larger and smaller advisers. Compared to advisers with at least \$10 billion in SMA assets, in 2020, smaller advisers (with less than \$10 billion in SMA assets) were likely to:

- Have a lower exposure to bonds. The difference between larger and smaller advisers is largest in corporate bonds, but smaller advisers have lower weightings in all bond categories except state and local bonds.
- Use registered investment companies, such as traditional open-end mutual funds and exchange-traded funds (ETFs), more extensively. In 2020, 30.2% of smaller advisers invested more than half of client assets in registered funds, compared to 14.3% of larger advisers.
- Invest more heavily in listed equities.

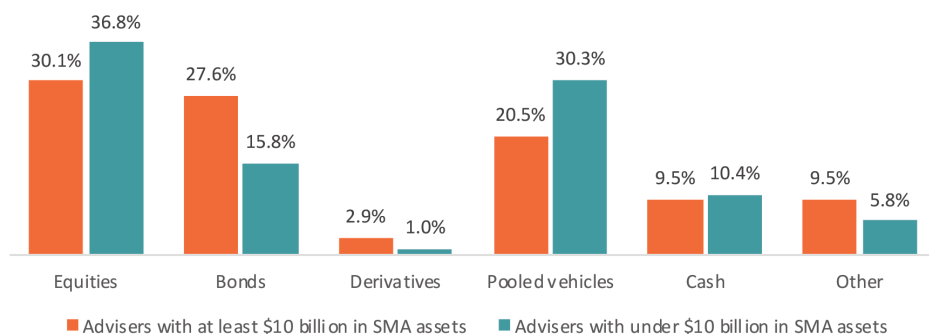
For detail, see Data Tables 5A and 5B ([available online](#)).



**FIGURE 5B**

## Investment Approach Differs Between Larger and Smaller SMA Advisers

Estimated Asset Allocation, 2020



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

In 2020, 1,932 advisers used derivatives in separately managed accounts (19.0% of advisers with SMA assets, compared to 18.2% in the previous year).

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

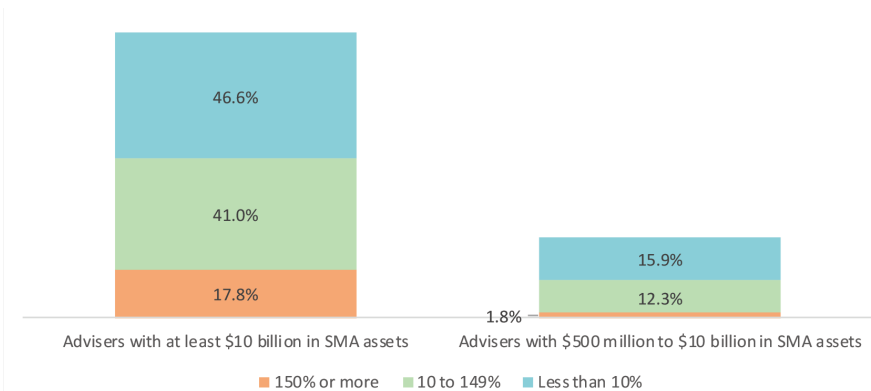
Advisers with more than \$10 billion in SMA assets are more likely than advisers with SMA assets under \$10 billion to use derivatives in separately managed accounts. They are most likely to use foreign exchange derivatives, equity derivatives, and interest rate derivatives in a gross notional exposure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

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

FIGURE 5C

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

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2020



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

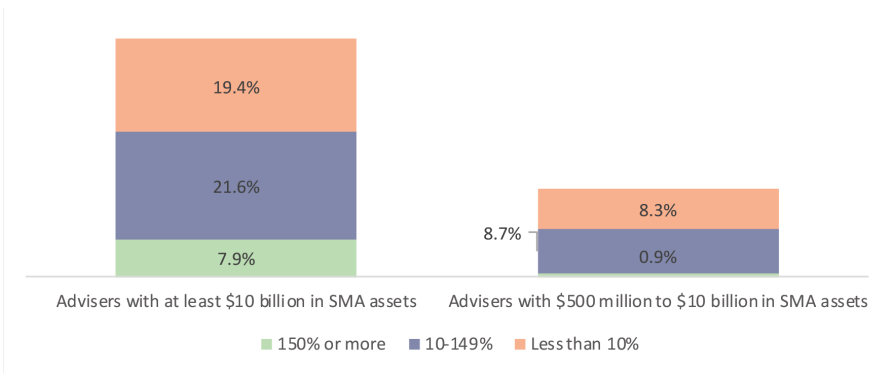
Advisers managing more than \$10 billion in SMA assets are also more likely to engage in borrowing transactions on behalf of separately managed account clients. Note that advisers report borrowings in SMAs within very broad ranges. Given the limitations of the data, it is difficult to draw more specific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

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

FIGURE 5D

## . . . And They are More Likely to Use Borrowings

Percentage of SMA Advisers Reporting Gross Notional Exposure (GNE) in Range, 2020



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

## Registered Funds

Registered funds are funds registered with the SEC under the Investment Company Act of 1940. They include traditional open-end mutual funds, exchange-traded funds (ETFs), closed-end funds, and business development companies (BDCs).

In 2020, 1,485 advisers (11.8% of advisers) managed money for 8,539 registered funds with \$37.9 trillion in assets.

Advisers managing registered fund assets reported \$77.7 trillion in parallel managed accounts. A parallel 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.

Note that 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; therefore, assets reported in Form ADV will exceed underlying client assets.

## Wrap Fee Programs

In a wrap fee program, a client receives a combination of services for an all-inclusive wrap fee. The services must include brokerage and often include 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.

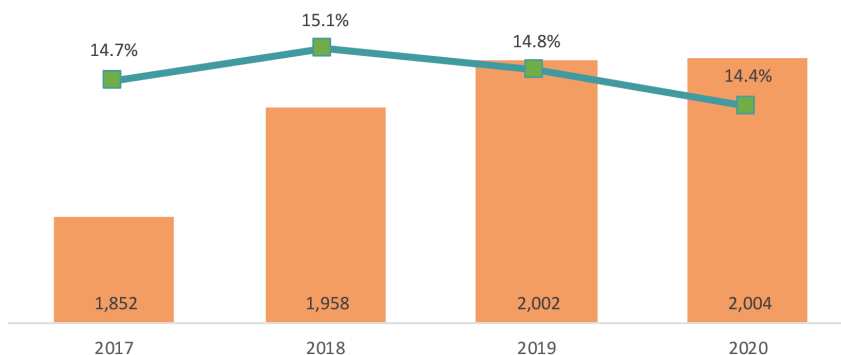
In 2020, growth in the number of advisers participating in wrap fee programs (as a sponsor, portfolio manager, or both) leveled off after 2 years of gains, while the percentage of advisers participating in these programs declined for the second year in a row. The decline may be attributable to the increasing use of unified managed accounts (UMAs) as an alternative to wrap 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.

However, asset growth remained strong. Annual growth in assets over the three-year period ended in 2020 was 16.5%.

FIGURE 5E

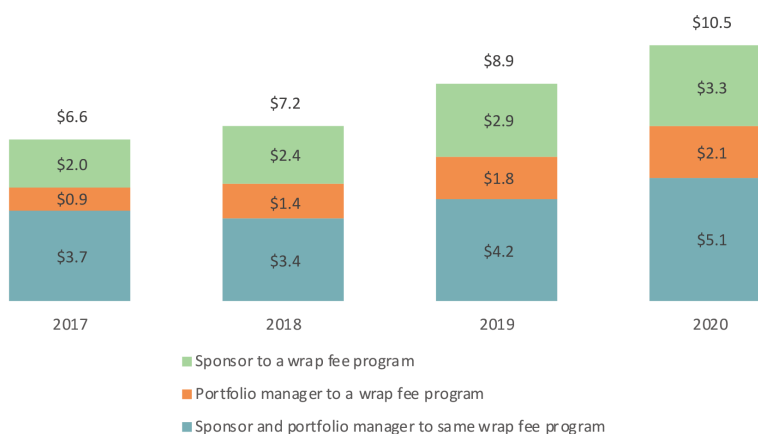
## Growth in the Number of Advisers Participating in Wrap Programs has Leveled Off . . .

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



## . . . While Assets in Wrap Fee Programs Continued Growing

Assets, \$ Trillions



## Private Funds

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

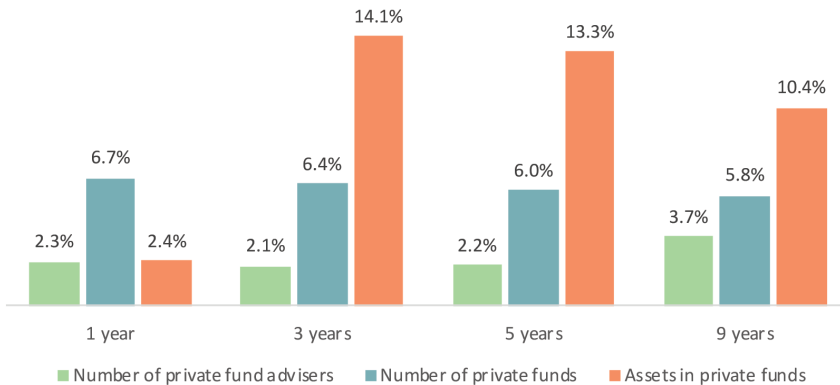
In 2020, there were 43,474 private funds with \$19.7 trillion in total assets. Growth in assets moderated in 2020, though growth in the number of private funds remained steady. These funds were managed by 4,953 advisers (35.7% of all advisers, in line with the previous year).

Note that private fund asset growth was especially strong in 2019, at 28.8%. Growth in 2019 was boosted by the registration of a new adviser reporting a venture capital fund with \$2.3 trillion in assets. Absent this new entrant, growth in 2019 would have been 13.4%.

FIGURE 5F

## Growth in Assets Moderated in 2020

Annual Growth Rates for Periods Ended 2020



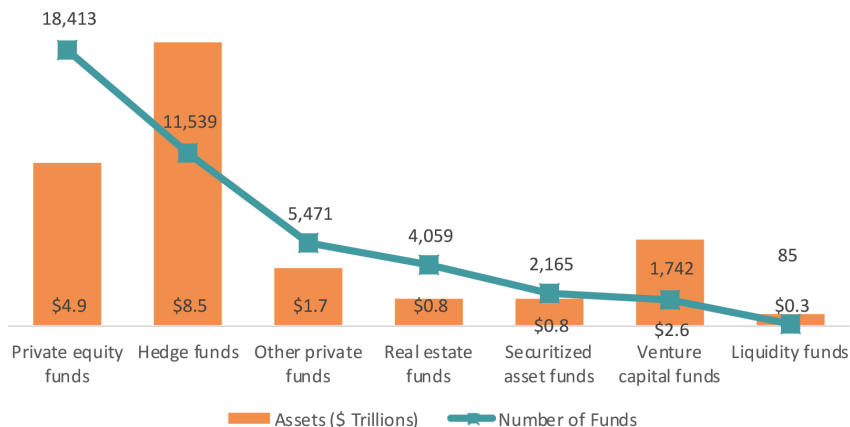
Note: Assets in private funds include new registrant reporting a venture capital fund with gross asset value of \$2.3 trillion in 2019 and 2020.

Private equity funds and hedge funds are the most common types of private funds. In 2020, private equity funds accounted for 42.4% of the number of funds, while hedge funds accounted for 43.1% of assets. Most of the largest private funds are hedge funds (58.8% of funds over \$5 billion).

FIGURE 5G

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

2020



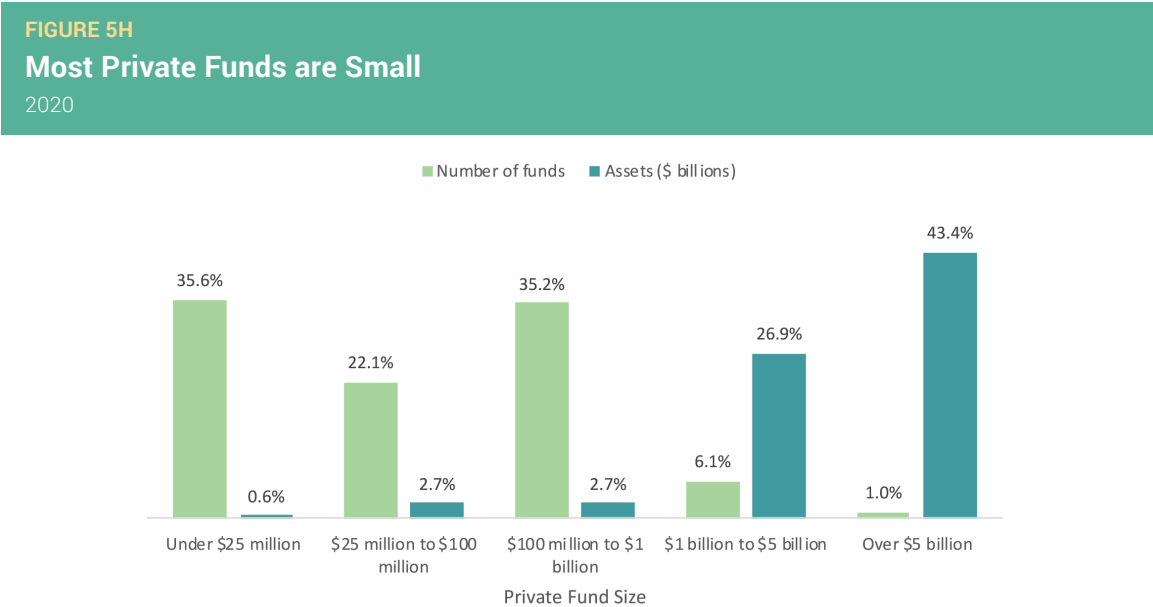
Note: Assets in venture capital funds include new registrant reporting a venture capital fund with gross asset value of \$2.3 trillion in 2019 and 2020.

In 2011, hedge funds were the most common type of private fund, accounting for 40.8% of all private funds. In 2020, hedge funds accounted for only 26.5% of private funds. By contrast, the proportion of private equity funds rose to 42.4% from 33.1% over the same period.

The share of private fund assets invested in hedge funds also declined over the past 9 years, to 43.1% of private fund assets in 2020 versus 53.2% in 2011. The asset share of venture capital funds increased significantly, to 13.1% in 2020 from 0.5% in 2011. Again, this increase is largely due to the registration of a new adviser reporting a venture capital fund with \$2.3 trillion in assets. The asset share of private equity funds remained roughly stable over the period.

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

Most private funds are small. In 2020, over one-third of private funds had less than \$25 million in assets, and more than one-half had less than \$100 million.



Note: Assets include new registrant reporting a venture capital fund with gross asset value of \$2.3 trillion in 2019 and 2020.

# Appendix | Insights into Private Fund Operations

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

Overall, private fund operational practices have not changed significantly since 2011, with the following exceptions:

- The median minimum investment declined (to \$250,000 in 2020 from \$500,000 in 2011), while the average minimum investment increased (to \$8.2 million from \$5.0 million). Clients are less likely to be solicited to invest in private funds (21.6% of private funds in 2020 versus 27.3% in 2011).
- Private funds are less likely to use a prime broker (15.6% of funds in 2020 compared to 25.0% in 2011) and more likely to use a third-party administrator (65.4% in 2020 compared to 57.0% in 2011). The strong growth in the number of private equity funds is likely a key driver of this shift; private equity funds rarely use prime brokers, but often use third-party administrators.
- Private funds are less likely to use a non-related person to value assets. In 2020, 57.5% of private funds reported that 0% of assets are valued by a non-related person, compared to 51.0% in 2012. The average percentage of private fund assets valued by a non-related person declined to 41.2% from 47.3%.

TABLE 5A Private Fund Operational Practices Number of Funds (Unless Otherwise Specified)		
Country of Organization		
	2011	2020
United States	17,618 (64.6%)	29,750 (68.4%)
Cayman Islands	7,130 (27.2%)	10,456 (24.1%)
Other	2,147 (8.2%)	3,268 (7.5%)
Basis for Exclusion from Registration		
	2011	2020
3(c)(1) Number of clients	9,673 (36.9%)	14,058 (32.3%)
3(c)(7) Qualified purchasers only	18,813 (71.8%)	33,353 (76.7%)

TABLE 5A (continued)

**Private Fund Operational Practices**

Number of Funds (Unless Otherwise Specified)

**Specialized Fund Types**

	<b>2011</b>	<b>2020</b>
Master fund (in master-feeder arrangement)	4,091 (15.6%)	6,915 (15.9%)
Feeder fund (in master-feeder arrangement)	2,356 (9.0%)	2,406 (5.5%)
Fund of funds	6,986 (26.7%)	10,446 (24.0%)
Fund of funds investing in related fund	2,005 (28.7% of funds of funds)	2,691 (25.8% of funds of funds)

**Investments by the Fund**

	<b>2011</b>	<b>2020</b>
Invests in registered funds	2,581 (9.9%)	2,377 (5.5%)

**Investments and Investors in the Fund**

	<b>2011</b>	<b>2020</b>
Minimum investment	\$500,000 (median) \$5.0 million (average)	\$250,00 (median) \$8.2 million (average)
Beneficial owners (persons)	15 (median) 100 (average)	14 (median) 52 (average)
Ownership by adviser and related persons	1% (median) 15% (average)	1% (median) 14% (average)
Sales limited to qualified clients	Not included in 2011 Form ADV	11,379 (26.2%) (80.9% of funds relying on 3(c)(1))
Ownership by non-U.S. persons	0% (median) 26% (average)	1% (median) 27% (average)
Clients solicited	7,161 (27.3%)	9,398 (21.6%)
Percentage of adviser's clients invested in fund	0% (median) 7% (average)	0% (median) 5% (average)
Relied on exemption under Regulation D	18,853 (72.0%)	31,015 (71.3%)



TABLE 5A (continued)

**Private Fund Operational Practices**

Number of Funds (Unless Otherwise Specified)

**Advisory Services**

	2011	2020
Sub-adviser to the private fund	937 (3.6%)	944 (2.2%)
Fund has other advisers	3,527 (13.5%)	3,957 (9.1%)

**Audits and Auditors**

	2011	2020
Financial statements subject to annual audit	23,271 (88.8%)	39,142 (90.0%)
Financial statements prepared in accordance with U.S. GAAP	22,631 (86.4%)	37,337 (85.9%)
Auditing firm is independent public accountant	23,802 (90.8%)	39,376 (90.6%)
Auditing firm is registered with PCAOB	23,802 (90.8%)	39,321 (90.4%)
Auditing firm is subject to regular inspection by PCAOB	23,404 (89.4%)	39,196 (90.2%)
Financial statements are distributed to investors	22,833 (87.1%)	37,482 (86.2%)
Received unqualified opinion	19,041 (72.7%)	30,538 (70.2%)

**Service Providers**

	2011	2020
Uses prime broker	6,563 (25.0%)	6,800 (15.6%)
Uses custodian	23,718 (90.5%)	40,897 (94.1%)
Uses third-party administrator	14,934 (57.0%)	28,443 (65.4%)
Uses third-party marketer	5,224 (19.9%)	8,788 (20.2%)

TABLE 5A (continued)

**Private Fund Operational Practices**

Number of Funds (Unless Otherwise Specified)

**Percentage of Fund Assets Valued by Non-Related Person**

	<b>2011</b>	<b>2020</b>
100%	11,022 (42.1%)	16,351 (37.6%)
0%	13,356 (51.0%)	25,014 (57.5%)
Median	0%	0%
Average	47.3%	41.2%

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

# 6

## Business Insights

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

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**87.1% of advisers**

reported no disciplinary history in 2020.

**56.3% of advisers**

were deemed to have custody of client assets in 2020.

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### IN BRIEF

The percentage of advisers reporting no disciplinary history was steady in 2020, at 87.1%. Larger advisers were more likely to report a disciplinary history.

The percentage of advisers reporting that they were deemed to have custody rose again in 2020, to a record high of 56.3%. Private fund advisers were more likely to be deemed to have custody.

# Affiliations

Many investment advisers are stand-alone businesses, in the sense that they are not affiliated with any other entities in the financial industry. In 2020, 39.1% of advisers had no affiliations in the financial industry.

An additional 27.1% of advisers had affiliations in the financial industry, but only with entities that engaged in investment management-related activities. Specifically, these affiliated entities are sponsors of pooled investment vehicles, other investment advisers, or a commodity pool operator and/or commodity trading advisor.

Approximately one-third of advisers (33.9%) have affiliations with firms in the financial industry that are not investment management-related (such as brokerage firms, insurance companies, or accounting firms).

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

**FIGURE 6A**  
**Financial Industry Affiliations**  
Number of Advisers by Type of Financial Industry Affiliation, 2020

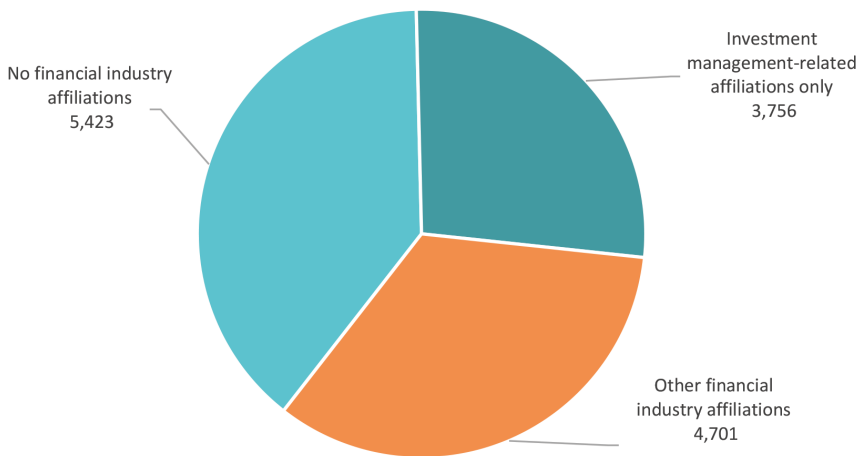


TABLE 6A

**Most Common Financial Industry Affiliations**

2020, Percentage of Advisers with Affiliation

Financial Industry Affiliation	% of Advisers
Sponsor, general partner, or managing member of pooled investment vehicles	36.0%
Other investment adviser (including financial planner)	30.9%
Broker-dealer, municipal securities dealer, or government securities dealer	16.8%
Commodity pool operator or commodity trading advisor	16.7%
Insurance company or agency	15.9%

## Custody

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

In 2020, 56.3% of advisers reported that they or a related person were deemed to have custody of client assets.

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

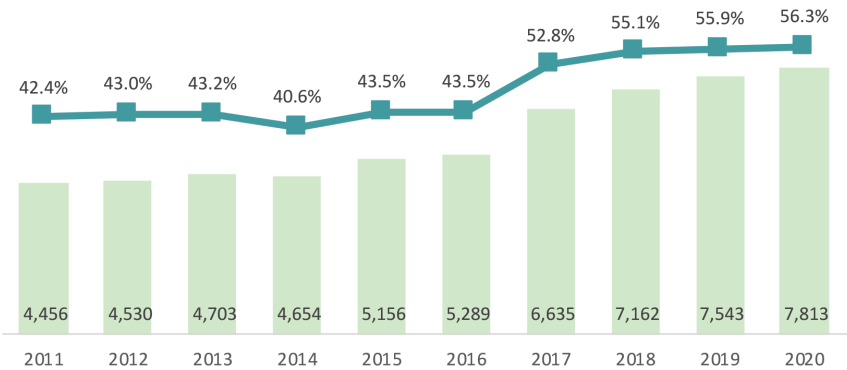
However, even absent the increase in 2017, the percentage of advisers deemed to have custody has been steadily rising. In general, advisers are more likely to report that they are deemed to have custody given the enhanced SEC attention, combined with the difficulty of interpreting a complex regulation.

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

FIGURE 6B

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

Number of Advisers and Percentage of Advisers



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

## Private Funds

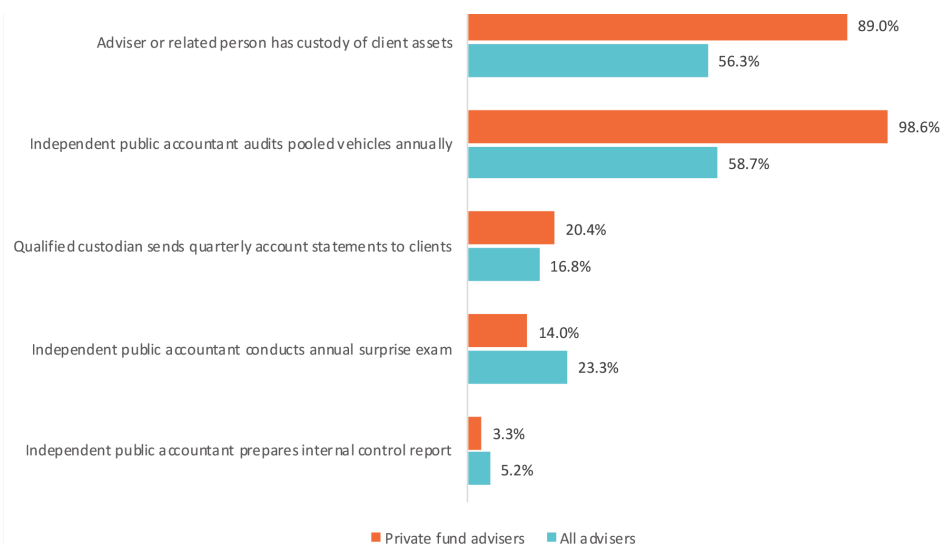
Private fund advisers are more likely to be deemed to have custody of client assets (88.6% in 2020) because of the way that they are commonly structured. Many private funds are limited partnerships with the adviser (or a related party) as general partner or limited liability companies with the adviser (or a related party) as managing member. In the SEC’s view, an adviser (or related party) that is the general partner of a limited partnership is deemed to have custody because the general partner has legal ownership or access to client funds or securities.

Of note, almost all private funds, regardless of custody, (98.6% in 2020) report that an independent public accountant conducts an annual audit of pooled vehicles. As a result, private fund advisers are less likely to be subject to a surprise exam.

FIGURE 6C

## Private Fund Advisers are More Likely to Have Custody of Clients' Assets

2020



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

### Separately Managed Accounts (SMAs)

Advisers to separately managed accounts are increasingly likely to report that over 10% of their SMA assets are with a single custodian (62.2% in 2020) which is likely to be a brokerage firm (67.4%).

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

TABLE 6B

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

	2019	2020
Custodian holds 10% or more of SMA assets	8,244 advisers (61.1%)	8,635 advisers (62.2%)
Percentage of custodians holding 10% or more of SMA assets that are related parties	2.8%	2.7%
Percentage of custodians holding 10% or more of SMA assets that are brokerage firms	66.5%	67.4%
Assets held by custodian with 10% or more of client assets	\$25.9 trillion (26.7% of industry assets)	\$28.7 trillion (26.1% of industry assets)

Qualified Custodians

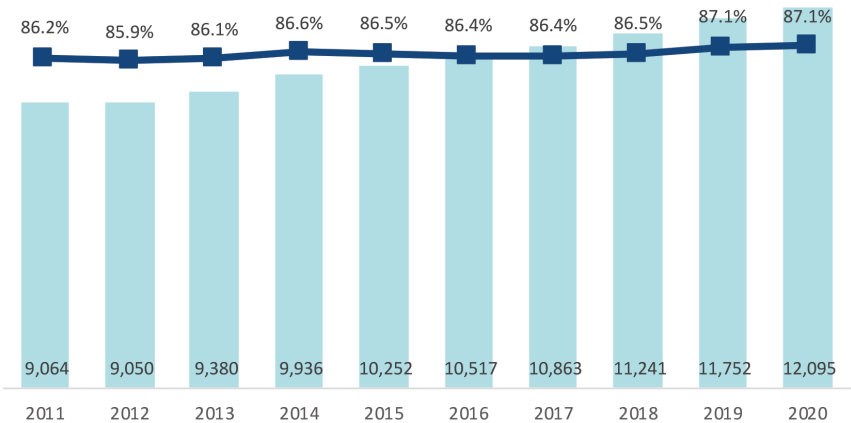
In 2020, 401 advisers reported that they or a related person acted as a qualified custodian for client assets, a decrease from 413 in the previous year. Because qualified custodians hold physical custody of assets, they must be a bank, brokerage firm, futures commission merchant, or qualifying foreign financial institution.

Of the related persons acting as a qualified custodian in 2020, over half were able to demonstrate that they were operationally independent of the adviser, which means that they are not required to have a surprise exam.

Disciplinary Information

The percentage of advisers with no disciplinary history remained steady in 2020, at 87.1%.

FIGURE 6D  
Advisers with No Disciplinary History  
Number of Advisers, Percentage of Advisers



Larger advisers are more likely to report a disciplinary history. While this higher reported rate is likely primarily attributable to these firms’ greater complexity, wider scope of activities, and larger number of employees, greater firm longevity may also be a factor. Advisers are required to report disciplinary issues going back at least 10 years and, for some issues, since the firm commenced operations. Larger firms are, on average, older than smaller firms. (For detail, see the Appendix.)



**FIGURE 6E**

## Larger Advisers are More Likely to Report Disciplinary Information

Percentage of Advisers

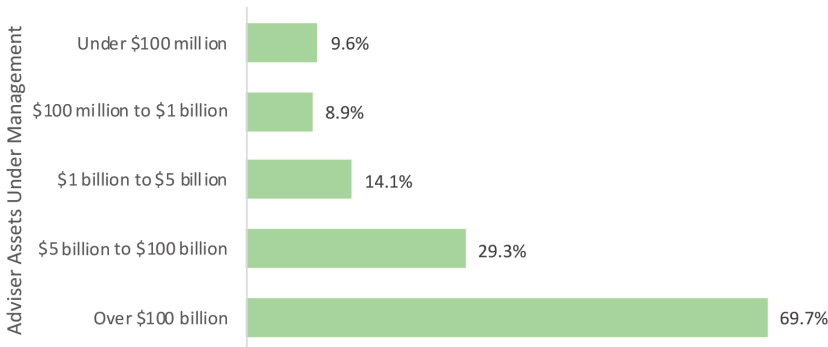


Table 6C summarizes the most common disciplinary issues reported in the 2020 Form ADV filings.

In 2020, there was an increase in reported disciplinary issues related to felonies. The number of advisers reporting that they (or their affiliates) had been convicted of or pled guilty or no contest to a felony rose to 64 from 52 (23.1% increase). Similarly, the number of advisers (or their affiliates) charged with a felony rose to 159 from 127 (25.2% increase).

The increase appears largely due to increased reporting by affiliated advisers, though increased enforcement activity may have also played a role.

With regard to current proceedings, in 2020:

- 133 advisers reported that they were currently subject to a regulatory proceeding,
- 146 advisers reported that they were currently subject to a civil proceeding, and
- 29 advisers reported that they were currently subject to both a regulatory proceeding and a civil proceeding.

TABLE 6C

**Most Common Disciplinary Issues Reported by Advisers**

2020

Disciplinary Issue	Number of Advisers Reporting
A regulator other than the SEC or CFTC found that you were involved in a violation of investment-related regulations or statutes	886
The SEC or CFTC found that you were involved in a violation of SEC or CFTC regulations or statutes	668
A regulator other than the SEC or CFTC entered an order against you in connection with an investment-related activity	659
The SEC or CFTC imposed a civil money penalty or ordered you to cease and desist from any activity	653
A self-regulatory organization or commodities exchange found that you were involved in a non-minor violation of its rules	617
The SEC or CFTC entered an order against you in connection with investment-related activity	609

## Foreign Regulatory Authority

In 2020, 1,155 advisers (8.3%) were registered with a foreign financial regulatory authority. For comparison, in 2011, 861 firms (8.2%) were registered with a foreign regulator.

## Other Business Activities

Looking within investment advisory firms, 66.6% of advisers are in the business of providing investment advice only (with a focus on securities investments).

An additional 13.6% report that their only outside business activity is as a commodity pool operator (CPO) and/or a commodity trading advisor (CTA).

Only 19.7% of advisers are engaged in other business activities.

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

FIGURE 6F

## Most Advisers are Focused on Providing Investment Advice

Number of Advisers, 2020

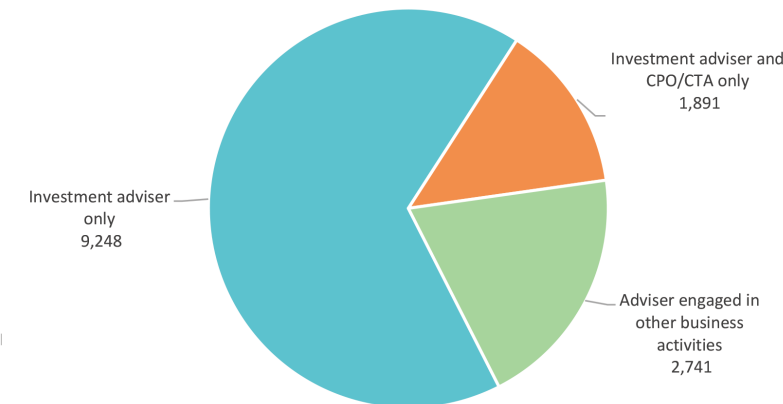


TABLE 6D

## Most Common Other Business Activities

2020, Percentage of Advisers with Other Businesses

Other Business Activity	% of Advisers
Commodity pool operator or commodity trading advisor	15.2%
Other (non-financial)	8.5%
Insurance broker or agent	8.1%
Broker-dealer	3.1%
Registered representative of a broker-dealer	3.0%
Other financial product salesperson	1.9%
Accountant or accounting firm	1.6%

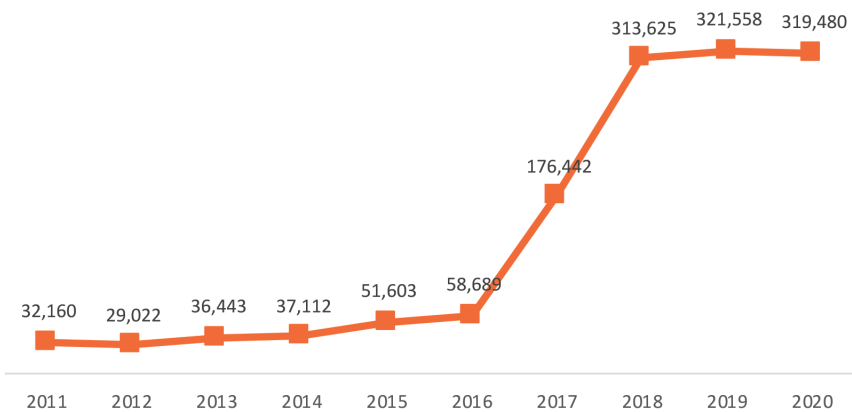
Note that 17.4% of advisers report that they sell other products or services to advisory clients.

# Solicitors and Referral Compensation

The percentage of advisers using third-party solicitors was unchanged in 2020 versus the prior year, at 27.0%. This percentage has remained steady since 2017.

However, the number of third-party solicitors used by these firms declined slightly in 2020, after surging in 2017 and 2018. The 2017 and 2018 gains were driven by “refer a friend” programs on digital advice platforms, which gave clients a small cash credit for making a referral to the platform.

**FIGURE 6G**  
**The Number of Third-Party Solicitors Surged in 2017 and 2018**



Of note, 88.2% of all solicitors are reported by a single adviser (a digital advice platform). The top 4 firms with the largest number of solicitors (each with 1,000+ solicitors) combined account for 92.9% of the total.

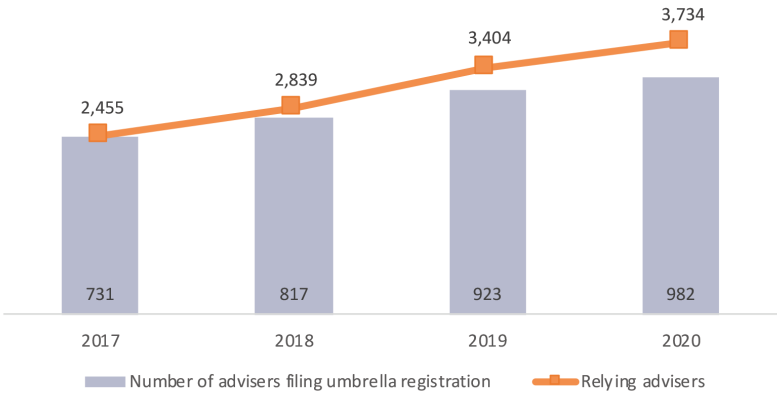
The percentage of advisers that compensate employees (through more than salary) for obtaining clients declined slightly, to 18.2%, as did the percentage of firms receiving compensation for referrals, to 6.3%. The prevalence of both practices has been stable for the past 3 years.

# Umbrella Registrations

The number of advisers filing umbrella registrations has been increasing steadily.

Since 2017, certain groups of private fund advisers have been permitted to file a single Form ADV with the SEC even if they are distinct legal entities that would otherwise be required to register separately (the “relying advisers”).

**FIGURE 6H**  
**The Number of Advisers Filing an Umbrella Registration is Increasing**

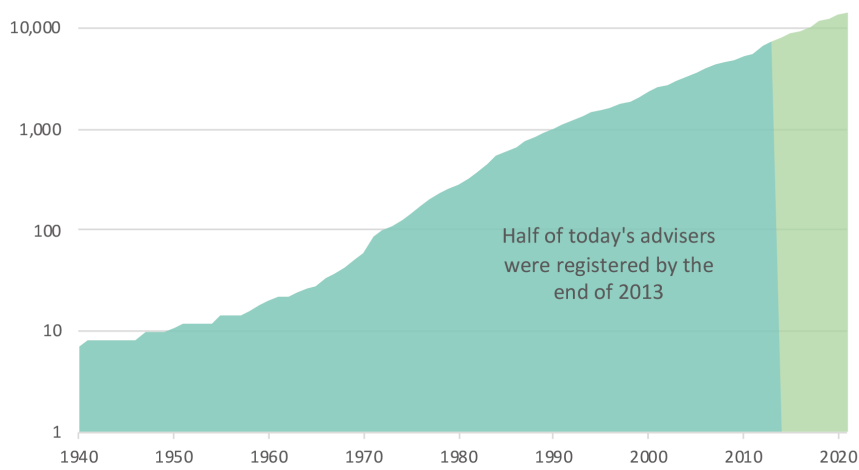


# Appendix | The Long View

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 66 firms will have passed the 50-year mark (as of June 30, 2021).

**FIGURE 6I**  
**A Long-Term View of Industry Growth**  
Number of Current Advisers with SEC Registration Effective Prior to Date



Note: Includes firms using an older version of Form ADV.

**TABLE 6E**  
**The 20 Oldest Investment Advisers**

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

**TABLE 6E** *(continued)***The 20 Oldest Investment Advisers**

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
Sarofim Fayez & 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

Note: Effective date of registration from Form ADV data based on continuity of CRD number. Mergers or restructurings can result in a new CRD number and new effective date. As a result, this table does not capture all firms in existence on or before 1960.

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

**TABLE 6F****Average Age of Advisers by Size**

<b>Assets Under Management</b>	<b>Average SEC Registration Effective Date</b>
Over \$100 billion	September 1994
\$5 billion to \$100 billion	September 2004
\$1 billion to \$5 billion	August 2007
\$100 million to \$1 billion	June 2011
Under \$100 million	September 2014

# Definitions

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

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

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

**borrowings** For the purposes of Form ADV, borrowings includes:

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

Borrowings excludes:

- leverage embedded in derivatives, securities lending or repos.

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

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

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

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

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

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

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

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

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

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

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

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

**hedge fund** Any private fund that:

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

**high net worth (HNW) individual** An individual who is a qualified client or qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940. In 2020, this was an individual with at least \$1.0 million in assets under management with an adviser or with net worth exceeding \$2.1 million (excluding the value of a primary residence). In mid-2021, the asset and net worth requirements were increased to \$1.1 million and \$2.2 million, respectively.

**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** Per 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 is licensed by state regulatory authorities.

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

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

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

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

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

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

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

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

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

**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 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), meaning funds that are distributed to a limited number of investors or only to certain qualified purchasers.

**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.

**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 2020, the requirement for a qualified client was at least \$1.0 million in assets with the adviser immediately after participating in the investment or a net worth of at least \$2.1 million (excluding the value of a principal residence). In mid-2021, the asset and net worth requirements were increased to \$1.1 million and \$2.2 million, respectively.

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

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

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

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

**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, though advisers may use other methodologies in Part 2.

**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.

**securitized asset fund** A private fund whose primary purpose is to issue asset backed securities and whose investors are primarily debt holders.

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

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

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

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

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

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





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