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NRS and IAA Release 12th Edition of *Evolution/Revolution*

Report Highlights Changes in Composition of Advisory Profession Resulting From Dodd-Frank Act

WASHINGTON, DC/LAKEVILLE, CT – November 5, 2012: The Investment Adviser Association (IAA) and National Regulatory Services (NRS) today issued their twelfth annual report, *Evolution/Revolution*, an in-depth study that analyzes annual updates filed by investment advisers registered with the Securities and Exchange Commission. The 2012 report is based on information on file with the SEC as of July 16, 2012.

This year's report notes that the total number of SEC-registered investment advisers declined from 11,539 in 2011 to 10,511 in 2012, reflecting changes required by provisions of the Dodd-Frank Act. On one hand, the so-called "switch" in the Dodd-Frank Act (increasing the dividing line between SEC-registered and state-registered advisers from \$25 million to \$100 million AUM) has resulted in about 2,400 SEC-registered advisers switching to state registration and regulation. On the other hand, provisions of the Dodd-Frank Act requiring the registration of certain "private fund advisers" under the Investment Advisers Act have resulted in the addition of more than 1,500 newly registered investment advisory firms.

Total regulatory assets under management (RAUM) reported by all investment advisers on July 16, 2012 were \$49.4 trillion, representing a significant increase from the \$43.8 trillion AUM reported in 2011. The report also incorporates new information required by the SEC, including questions relating to regulatory assets under management, custody, and private funds.

"The Dodd-Frank Act has had a profound effect on the composition of the investment advisory profession," said David Tittsworth, executive director of the IAA. "The law has shifted regulatory responsibility for hundreds of smaller firms to the states, while requiring larger private fund advisers to register with the SEC. These seismic shifts have resulted in a net decrease in the number of SEC-registered investment advisory firms. However, many of the core characteristics of the advisory profession remain fairly constant. For example, a relatively small number of large investment advisory firms manage a high percentage of total RAUM. The 90 largest advisers (*i.e.*, those that manage \$100 billion RAUM or more) reported that they manage almost half (48.9%) of total RAUM. Similarly, the 664 advisers with \$10 billion RAUM or more reported that

they manage 82.7% of all assets. At the same time, most SEC-registered investment advisers are small businesses. In 2012, 74.0% of all advisers reported managing less than \$1 billion RAUM. Almost 60% of all advisers reported 10 or fewer full and part-time, non-clerical employees and 88.7% reported 50 or fewer. It is clear that the U.S. investment advisory profession is an engine of small business creation and growth.”

“Our 2012 report shows that the investment advisory profession is alive and well, with SEC-registered firms employing more than 759,000 professionals and serving more than 23 million individual and institutional clients,” stated John Gebauer, managing director of NRS. “Our report also highlights the fact that the SEC is collecting more data about private fund advisers than ever before. Private funds have become a mainstream component of the investment advisory profession. More than one-third of all SEC-registered advisers (37.9%) reported that they manage at least one private fund. There were a total of 26,202 private funds reported by all SEC-registered advisers with collective RAUM of \$8.1 trillion. 2,333 advisory firms reported that more than 75% of their RAUM are from assets of private funds. 1,346 of these ‘specialist’ private fund firms are newly registered as investment advisers with the SEC this year. The SEC has announced that it intends to implement new examinations tailored to these types of firms and they are in the process of collecting much more extensive information via Form PF.”

Evolution/Revolution examines information the SEC requires investment advisers to file annually. This includes information on assets under management, employees, advisory and other business activities, clients, custody, disciplinary history, and other data. Copies of the report may be obtained by contacting IAA or NRS. A PDF version of the report is available online at www.investmentadviser.org and www.nrs-inc.com.

About NRS

National Regulatory Services (NRS) is the nation’s leader in compliance and registration products and services for investment advisers, broker-dealers, hedge funds, investment companies and insurance institutions. NRS has the practical expertise, proven capability and unparalleled reach to deliver integrated and effective compliance solutions to a wide range of users within the financial services industry. NRS delivers these solutions through three interrelated offerings – comprehensive education, best-in-class technology and expert consulting services – enabling its clients to meet their regulatory requirements and minimize risk. NRS is part of BankersAccuity, the global standard for payment efficiency and compliance solutions. For more information, visit: www.nrs-inc.com.

About IAA

The Investment Adviser Association is a non-profit association based in Washington, DC that represents the interests of SEC-registered investment advisory firms. The IAA’s membership consists of about 550 SEC-registered investment adviser firms that collectively manage assets of more than \$10 trillion for a variety of institutional and individual clients. The IAA provides a range of advocacy, compliance, and educational services and resources to its growing membership. For more information, visit: www.investmentadviser.org.

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