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NRS and IAA's 13th Annual *Evolution/Revolution* Study Spotlights U.S. Investment Advisory Profession as Engine of Small Business

Total regulatory assets under management reported by SEC-registered investment advisers increased significantly to \$54.8 trillion from \$49.4 trillion

SEC-registered firms employ more than 700,000 professionals and serve more than 25 million individual and institutional clients

WASHINGTON, DC/LAKEVILLE, CT – October 3, 2013. The Investment Adviser Association (IAA) and National Regulatory Services (NRS) today issued the 13th annual *Evolution/Revolution* report, an in-depth study that analyzes annual updates filed by investment advisers registered with the Securities and Exchange Commission (SEC). The 2013 report is based on information on file with the SEC as of April 12, 2013.

This year's report notes that total regulatory assets under management (RAUM) reported by all investment advisers on April 12, 2013 were \$54.8 trillion, representing a significant increase from the \$49.4 trillion RAUM reported in July 2012.

The total number of SEC-registered investment advisers increased only slightly, from 10,511 in July 2012 to 10,533 in April 2013. This follows a significant decrease from 11,539 in 2011. The changes in the total number of investment advisers appear to incorporate fully the requirements of the Dodd-Frank Act. 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) resulted in more than 2,000 SEC-registered advisers switching to state registration and regulation. At the same time, 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.

"Our 2013 report shows that the investment advisory profession is alive and well, with SEC-registered firms employing more than 700,000 professionals and serving more than 25 million individual and institutional clients," stated John Gebauer, managing director of NRS. "Owing to expansions in the SEC's data collection activities, we now have even more information about the investment advisory profession. For example, 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.”

Key findings of the report include that:

- More than one-third of all SEC-registered advisers (38.1%) reported that they manage at least one private fund. Private fund advisers reported a total of 26,752 private funds with collective RAUM of \$8.5 trillion – up from \$8.1 trillion in July 2012.
- Hedge funds comprise 40.8% of all reported private funds while private equity funds comprise approximately 32.5%.
- 4,530 SEC-registered investment advisers (43%) reported that they or a related person are deemed to have custody of client assets.
- Less than 1% of advisers (99) reported acting as a qualified custodian (that is, having actual physical custody) in connection with their advisory services.

“Despite the high incidence of custody among private fund advisers, most investment advisers do not have actual physical custody of client assets or securities,” noted Gebauer.

“Our report underscores the fact that 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 dramatic shifts have yielded 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.”

A relatively small number of large investment advisory firms manage a high percentage of total RAUM. The 99 largest advisers (*i.e.* those that manage \$100 billion RAUM or more) reported that they manage more than half (50.9%) of total RAUM. Advisers with less than \$1 billion RAUM, which account for 73% of all SEC-registered advisers, reported that they collectively manage only 3.7% of total RAUM.

As the report has emphasized in previous years, most SEC-registered investment advisers are small businesses. In 2013, more than half of all advisers (57.8%) reported having ten or fewer full-time and part-time non-clerical employees and 88.3% reported having fewer than 50 such employees.

According to Tittsworth, “Despite the migration of hundreds of smaller advisory businesses to the states, it is still clear that the U.S. investment advisory profession is an engine of small business creation and growth.”

The report also reflects other information required to be reported to the SEC, including additional questions relating to regulatory assets under management, custody, private funds, industry affiliations, types of advisory clients and employees of advisory firms.

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 (under “Publications/News” and “Reports & Brochures”) and at <http://www.nrs-inc.com/EvolutionRevolution2013>.

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 Accuity, 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 members collectively manage assets of more than \$11 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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