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**IAA/NRS 2009 EVOLUTION/REVOLUTION REPORT HIGHLIGHTS THE
IMPACT OF THE FINANCIAL CRISIS ON THE INVESTMENT ADVISORY
PROFESSION**

WASHINGTON, D.C./LAKEVILLE, CT – October 2, 2009: The Investment Adviser Association (IAA) and National Regulatory Services (NRS) today issued their ninth annual report, *Evolution/Revolution*, profiling the investment advisory profession. The report is based on information registered investment advisers must file electronically with the Securities and Exchange Commission annually.

In commenting on the report, David Tittsworth, Executive Director of the IAA, said “The vast majority of advisory firms experienced significant declines in assets under management as a result of the financial crisis of 2008. However, the investment advisory profession continues to be resilient and we expect that assets will increase as the markets rebound. As the current regulatory reform debate moves forward, we believe it is critical for policy makers to be mindful of the broad diversity of investment advisory firms, including the predominance of small businesses.”

Based upon fiscal year-end financial data, the 2009 report confirms that the industry withstood a significant downturn, yet remains a viable and attractive business model for financial professionals. Total assets managed by investment advisers shrank for the first time since 2003, but despite a nearly 20% drop in assets, the number of SEC-registered investment advisers increased by 2% to 11,257. Total assets under management (AUM) reported by all firms dropped precipitously to \$34 trillion after reaching an all-time high of \$42.3 trillion the previous year.

As reported in previous reports, assets under management are highly concentrated with a small number of very large firms. Four percent of SEC-registered investment advisers manage more than 80% of the total assets. Small businesses (those that employ fewer than 50 employees) make up the bulk of the SEC-registered investment advisory universe at 90%.

Not surprisingly, the number of investment advisers that manage at least one hedge fund declined in the past year to 1,747 from 1,868 and these hedge fund advisers reported \$14.3 trillion in AUM. Given the on-again, off-again registration requirements for advisers to hedge funds and the various proposed legislative initiatives that would restore the registration requirement and offer some transparency into the operations of hedge

fund advisers, these trends give little insight into this niche of the profession. Nonetheless, the data suggest that this market segment was disproportionately impacted by the economic decline.

“The findings of the report reinforce and amplify what we’ve seen and heard from our clients in the past year,” said John Gebauer, Managing Director at NRS. “Given that the primary form of compensation for advisers is a percent of AUM, many small businesses have been faced with revenue declines of 20% in the fourth quarter of 2008 and another 20% in the first quarter of 2009. Undoubtedly, many small advisers closed up shop, but the vast majority of them remain committed to their clients and the advisory business model.”

“The growth in the number of SEC-registered advisers in the current economic climate is particularly remarkable when considering these advisers typically must have at least \$25 million in AUM to qualify for SEC registration. The newly SEC-registered advisers arrive with substantial books of business, suggesting that the long-term trend to shift from a transactional to an asset management client service model may have been bolstered by displaced broker-dealer representatives forming new investment advisory businesses or helping existing advisers reach the \$25 million threshold,” added Robert Stirling, one of NRS’ Senior Consultants.

Evolution/Revolution is an in-depth study on the trends of the investment adviser profession that analyzes annual updates filed by SEC-registered investment advisers, including information on assets under management, employees, advisory and other business activities, clients, custody, disciplinary history, and other information the SEC requires investment advisers to file electronically. Copies of the report may be obtained by contacting IAA or NRS. A PDF version of the report is available on-line at www.investmentadviser.org and www.nrs-inc.com.

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Investment Adviser Association

The Investment Adviser Association (formerly the Investment Counsel Association of America) is a non-profit association that represents the interests of SEC-registered investment advisory firms. The IAA’s membership consists of more than 450 SEC-registered investment adviser firms that collectively manage in excess of \$8 trillion for a variety of institutional and individual clients. www.investmentadviser.org.