



EVOLUTION₂₀₀₈ REVOLUTION

A PROFILE
OF THE INVESTMENT ADVISER PROFESSION

NATIONAL REGULATORY SERVICES & INVESTMENT ADVISER ASSOCIATION

INVESTMENT ADVISER
ASSOCIATION



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INTRODUCTION

The Investment Adviser Association and National Regulatory Services are pleased to present our eighth annual Evolution Revolution report identifying significant trends and developments taking place in the investment advisory profession.

This report presents information on SEC-registered advisers based on the latest data from the Investment Adviser Registration Depository (IARD), the electronic filing system that investment advisers must use to file information required under regulations adopted by the Securities and Exchange Commission (SEC).

EXECUTIVE SUMMARY

Our analysis of the 2008 IARD data on SEC-registered entities reveals several key findings.

- *Growth in AUM.* As of April 2008, total assets under management (AUM) reported by all SEC-registered advisers reached an all-time high of \$42.3 trillion. This represents an increase of \$4.6 trillion – or 12.3% – above 2007 (compared to 19.9% between 2006 and 2007). More than 90% of assets under management reported to the SEC in 2008 are handled on a discretionary basis (\$38.7 trillion).
- *Growth in number of advisers.* The total number of SEC-registered investment advisers continues to grow. As of April 2008, there were 11,030 advisers registered with the SEC (although the total number is less than 10,000 when subtracting entities that reported less than \$25 million in assets). The total number of SEC-registered advisers grew by 584 from April 2007, representing 5.6% annual growth.
- *Large firms control a large percentage of assets.* A small number of large advisory firms control the vast majority of assets. In 2008, 82 firms reported that they manage \$100 billion or more in assets, representing only 0.7% of all SEC-registered advisers. However, this small percentage of firms collectively reported AUM of \$20.3 trillion – almost half of total AUM. By comparison, there were 7,816 advisers (71% of all SEC-registered advisers) with \$25 million – \$1 billion in AUM that collectively manage only \$4.4 trillion in client assets.
- *Small firms.* The vast majority of SEC-registered investment advisers are small businesses. In 2008, 90.1% reported 50 or fewer employees. Nearly half of all advisers (49.2%) reported that they employ 5 or fewer employees.
- *Hedge fund advisers.* Previous reports chronicled the movements of hedge fund adviser registrations. In 2008, 1,868 firms that manage at least one hedge fund were registered with the SEC. While a number of hedge fund advisers have de-registered since the 2006 court decision invalidating the SEC's hedge fund registration rule, there are a significant number of firms that specialize in managing hedge funds that have voluntarily registered with the SEC.

EXPLANATION OF REPORT DATA

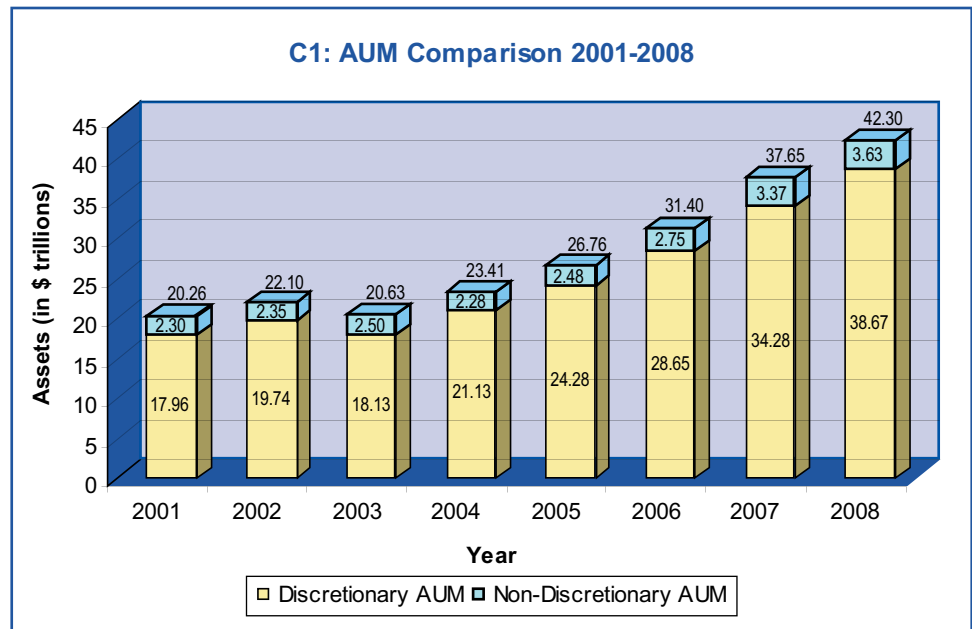
This report is based on data filed on Form ADV, Part 1A through the Investment Advisory Registration Depository (IARD) system as of April 23, 2008. The IARD system was implemented on January 1, 2001 and all advisers registered with the SEC were required to transition to electronic filing by April 30, 2001.¹

Pursuant to the National Securities Markets Improvement Act of 1996 (NSMIA), investment advisers that manage \$25 million or more in assets are generally regulated by the SEC.² Rule 203A-1 under the Investment Advisers Act provides that when an adviser's managed assets grow to \$30 million or more, the firm must register with the SEC. The rule also provides that firms with between \$25 million and \$30 million in assets under management (AUM) are permitted, but not required, to register with the SEC.

Nearly 91% of advisers operate on a calendar year basis and SEC regulations require that advisers update their SEC filings within 90 days after their fiscal year end.³ Accordingly, the vast majority of SEC-registered investment advisers were required to update their responses to Form ADV, Part 1A by March 31, 2008. As such, this report reflects the most recent data available regarding SEC-registered investment advisers.

ASSETS UNDER MANAGEMENT

Total assets under management (AUM) reported by SEC-registered investment advisers has grown to an all-time high of nearly \$42.3 trillion.⁴ This represents an increase of \$4.6 trillion, or 12.3%,⁵ since our 2007 report, but is less than last year's percentage gain of 19.9%. Even considering the fact that total AUM are overstated, it is nonetheless clear by any measure that SEC-registered investment advisers collectively manage an enormous amount of assets for individuals and institutions. For example, annual U.S. GDP for 2007 was \$13.8 trillion,⁶ representing less than one-third of total AUM.



As noted in chart C2, all AUM categories experienced absolute growth in 2008, although the largest investment advisory firms realized the highest rates of growth. Advisers with \$100 billion or more in AUM accounted for

almost half (49.7%) of 2008's overall AUM growth. While accounting for only 172 of the 11,030 registered investment advisers (1.6%), firms with \$50 billion or more AUM accounted for almost 7 of every 10 new dollars in AUM. Interestingly, the percentage change in AUM for 2007-2008 as compared to 2006-2007 increased for all categories of advisers under \$5 billion and decreased for all categories of advisers at \$5 billion or more. Despite the increased 2007-2008 percentage growth within the categories with under \$50 billion AUM, the adviser industry's standard deviation from the mean AUM increased by 5.8% to \$27.8 billion, reflecting the high concentration of AUM in a small number of firms, as discussed in Concentration of Managed Assets.

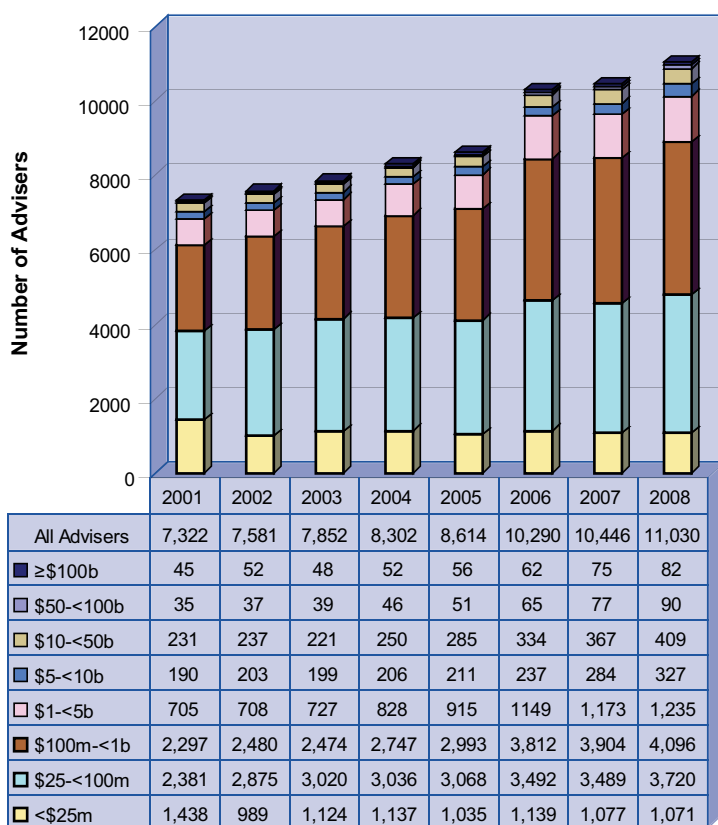
NUMBER OF SEC-REGISTERED INVESTMENT ADVISERS

The universe of SEC-registered advisers continues to expand. In 2008, the total number of SEC-registered investment advisers grew by 584 to 11,030, a 5.6% increase from 2007. This net increase of 584 advisers takes into account 651 firms that withdrew their registrations in the past year resulting in 1,235 new SEC registrations during the past year.

C2: Total Assets Held By SEC-Registered Investment Advisers

Category of IA by AUM	2006 AUM (In \$ Billions)	2007 AUM (In \$ Billions)	2008 AUM (In \$ Billions)	2006-2007 Percent Change	2007-2008 Percent Change
<\$25 million	4.2	4.0	4.4	-4.69%	10.41%
\$25-<100 million	191.4	193.9	205.8	1.28%	6.18%
\$100 million-<1 billion	1,266.7	1,303.6	1,368.4	2.93%	4.97%
\$1-<5 billion	2,624.4	2,614.0	2,835.6	-0.40%	8.48%
\$5-<10 billion	1,665.5	1,975.8	2,323.7	18.63%	17.61%
\$10-<50 billion	7,203.9	8,159.1	8,918.7	13.26%	9.31%
\$50-<100 billion	4,534.7	5,393.7	6,324.6	18.94%	17.26%
≥\$100 billion	13,905.3	18,009.3	20,315.1	29.51%	12.80%
All Advisers	31,395.9	37,653.3	42,296.3	19.93%	12.33%

C3: Number of SEC-Registered Investment Advisers by AUM Category



C4: Change in Number of Advisers by AUM Category

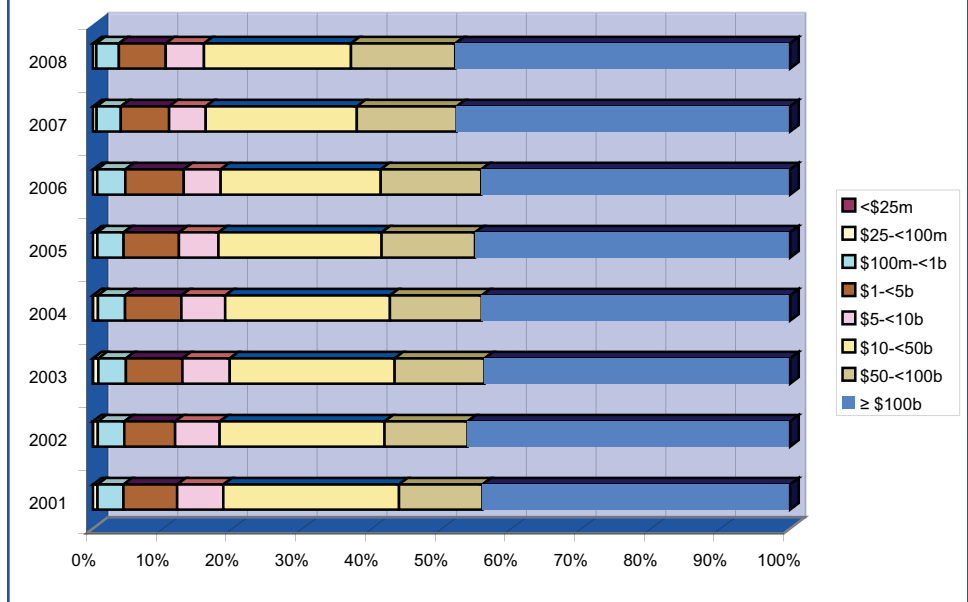
AUM Category	2006-2007 Net Change	2007-2008 Net Change	2006-2007 Percent Change	2007-2008 Percent Change	2001-2008 Average Annual Percent Change	2001-2008 Total Percent Change
<\$25m	-62	-6	-5.44%	-0.56%	-3.05%	-25.52%
\$25-<100m	-3	231	-0.09%	6.62%	6.82%	56.24%
\$100m-<1b	92	192	2.41%	4.92%	8.92%	78.32%
\$1-<5b	24	62	2.09%	5.29%	8.64%	75.18%
\$5-<10b	47	43	19.83%	15.14%	8.30%	72.11%
\$10-<50b	33	42	9.88%	11.44%	8.78%	77.06%
\$50-<100b	12	13	18.46%	16.88%	14.68%	157.14%
≥\$100b	13	7	20.97%	9.33%	9.27%	82.22%
All Advisers	156	584	1.52%	5.59%	6.17%	50.64%

As shown in table C4, the number of smaller advisers grew more quickly during 2007-2008 than in 2006-2007. However, the largest percentage growth from 2007-2008 was realized by advisers with over \$5 billion AUM. Table C4 compares the net change and percentage change in the total number of advisers in the listed AUM categories over time. The number of advisers reporting less

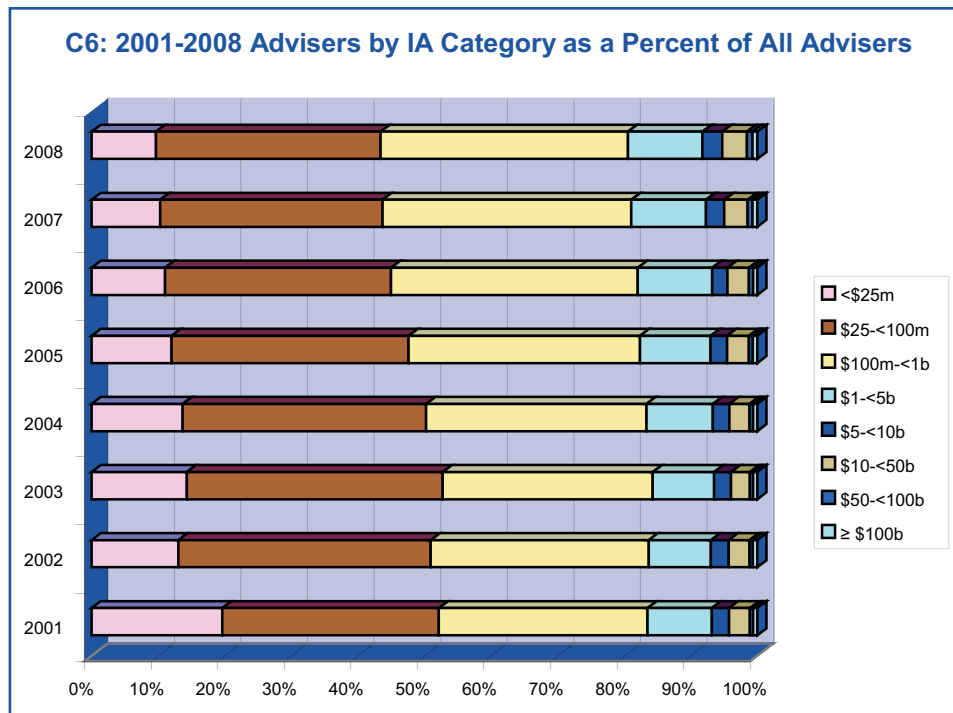
than \$25 million AUM has continued to decrease. In 2008, there were 1,071 such advisers, representing 9.7% of all SEC-registered investment advisers. These “non-traditional” advisers are attributable to, among other things: pension consultants, firms expecting to have greater than \$25 million AUM, nationally recognized statistical rating organizations, internet advisers, and advisers with their principal place of business in Wyoming. Inclusion of these 1,071 entities as “investment advisers” leads to an overstatement of the total number of SEC-registered investment advisory firms. Many of them, including the pension consultants noted above, register with the SEC but do not manage assets in the traditional sense. In fact, over half of these firms (616) reported \$0 AUM. Accordingly, while it is technically accurate to state that there are more than 11,000 SEC-registered investment advisers

as of April 2008, the actual number of “traditional” investment advisory firms that provide investment advisory services is less than 10,000. For an in-depth breakdown of the basis of registration for all advisers, please refer to “Basis for SEC Registration” on page 19.

C5: 2001-2008 AUM Held by IA Category as a Percent of All AUM



CONCENTRATION OF MANAGED ASSETS

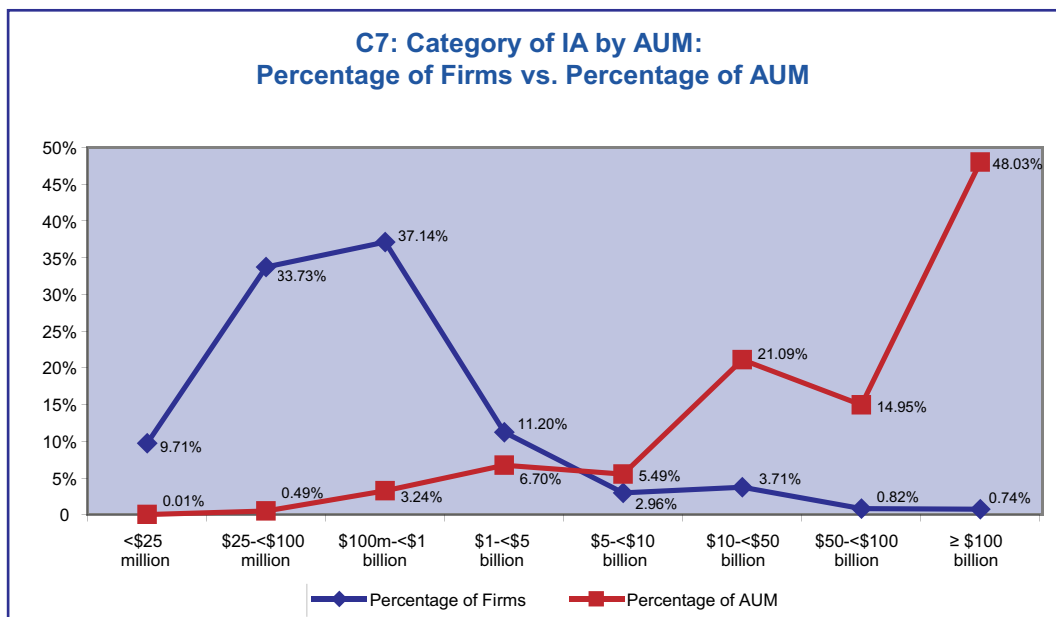


The data confirm the continued dominance of large firms in terms of assets under management. Advisers with \$100 billion or more AUM continue to hold the largest share of all adviser managed assets (48%). As reported in prior years, of these 82 advisers, 57 are related in ownership, which further accentuates the concentration of assets in a relatively

small number of advisory firms. Charts C5 and C6 illustrate the relative size of the different investment adviser categories of AUM from 2001 to 2008.

Advisers that manage \$10 billion or more in assets represent only 5.3% of all SEC-registered advisers but collectively manage 84.1% of the total AUM, a slight increase from 83.8% in 2007. By comparison, the more than 80% of advisers that manage less than \$1 billion AUM collectively manage only 3.7% of the total AUM, a decrease from 4.0% in 2007.

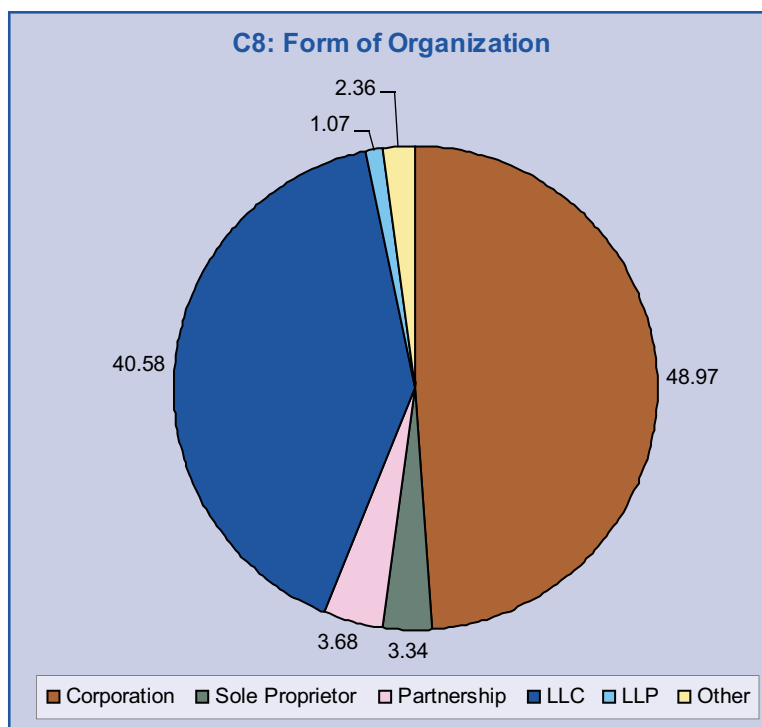
Indeed, the median AUM for an SEC-registered investment adviser in 2008 is only \$132 million. Chart C7 indicates the concentration of AUM in a very small number of firms.



CHARACTERISTICS OF INVESTMENT ADVISORY FIRMS

Form of Organization

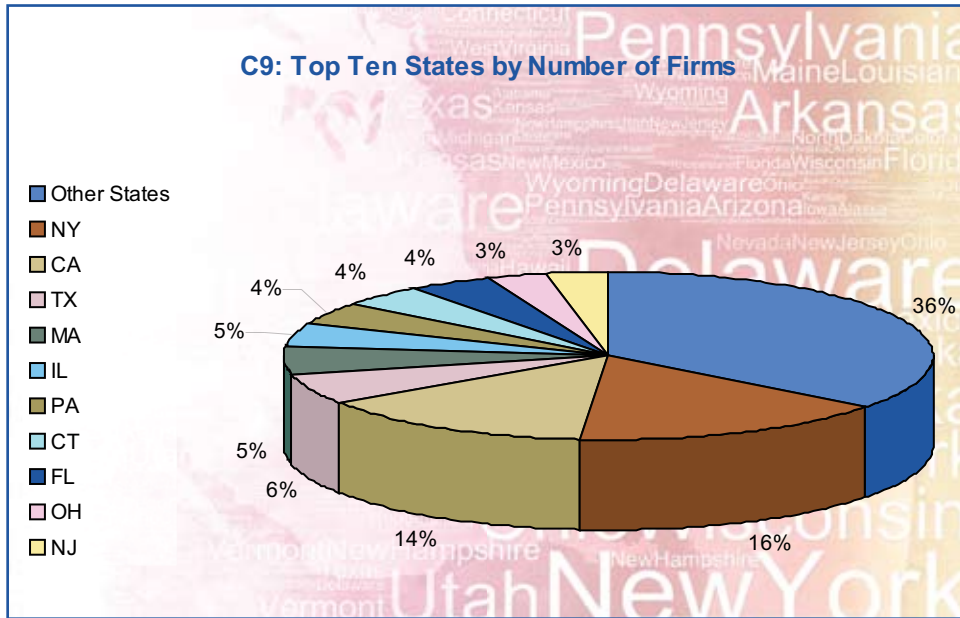
As shown in the pie chart C8, almost half of all SEC-registered advisers are organized as corporations (5,401 firms or 49%). This represents a slight decrease in the overall percentage of advisers organized as corporations reported in 2007 (50.5%) and continues the downward trend in the percentage of advisers organized as corporations during the past several years. In 2003, for example, advisers organized as corporations made up 62.7% of all SEC-registered investment advisers. Of the 1,235 newly registered SEC advisers during the past year, only 396 (32.1%) were organized as corporations, while 736 (59.6%) were organized as limited liability companies (LLCs). In 2008, 4,476 advisers reported being organized as LLCs, constituting the second largest (40.6%) and fastest growing category of advisers.



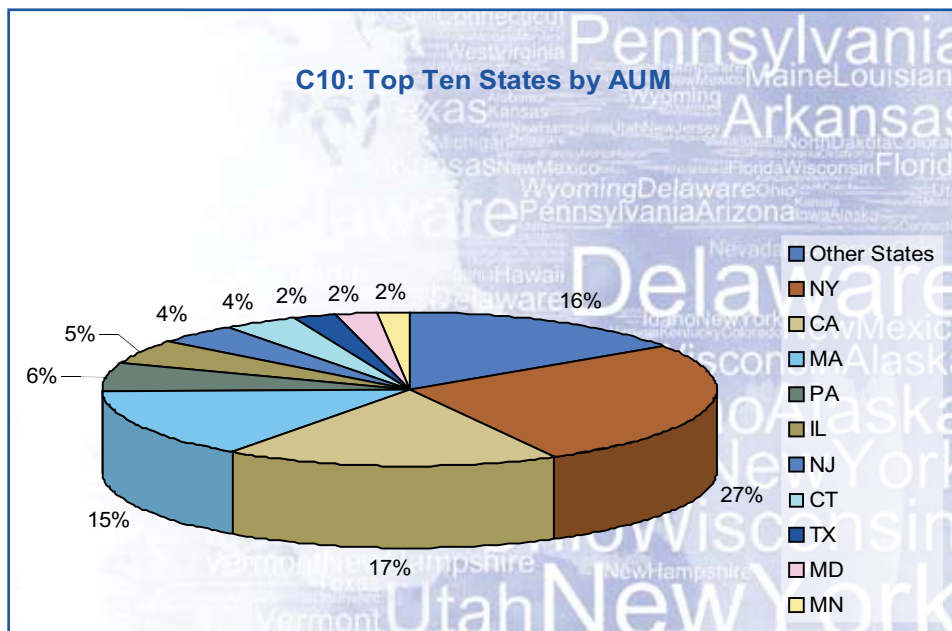
Geographical Analysis

Most SEC-registered investment advisers are required to provide a primary business address,⁷ except for those advisers located at a private residence (labeled “No Address” in Appendix I⁸). Of the 10,477 advisers that provide a primary location, 94.7% are located in the United States.⁹ These domestic advisers are broadly concentrated in a small number of states (the top ten states have about two-thirds of all domestic advisers’ principal locations). Similarly, AUM attributed to each principal place of business is also highly concentrated, with the top ten states representing 84% of all domestic AUM.

This geographic data presents a distorted picture of the actual adviser and asset distribution. This distortion arises from using an adviser’s principal business location as the measure. Specifically, any adviser present in multiple states counts as an adviser only for its principal state and has all of its assets counted only for that state, which results in the inflation of states with more principal business locations and the deflation of states with less principal business locations, regardless of actual adviser and asset numbers. The principal-business-location measure nevertheless provides an approximate measure of the distribution of the adviser industry among the states.



As charts C9 and C10 demonstrate, there is wide variation in AUM and number of advisers from state to state. While some states hold relatively steady in the ratio of percent of AUM to percent of advisers, there are some significant outliers. New York, with 16% of domestic registered advisers, accounts for 27% of domestic AUM, while Massachusetts with 5% of domestic registered advisers has 15% of domestic AUM. Further analysis of this chart shows that the 1,547 advisers in New York have an average of \$6.3 billion AUM compared to 524 advisers in Massachusetts that average \$10.3 billion discretionary AUM. Only Delaware, with only 35 advisers, tops Massachusetts' average, with \$15.4 billion AUM per adviser.



INTERNATIONAL ADVISERS

The number of advisers reporting registration with a foreign financial regulatory authority increased slightly in 2008 to 835 firms. This number represents 7.6% of SEC-registered advisers, the same percentage reported in 2007. In 2008, 552 SEC-registered advisers (5%) listed non-US addresses as their principal place of business, down slightly from 2007 (559 firms or 5.4%).

Despite a decrease in the number of firms reporting a non-US address, the assets under management of these “foreign” advisers grew by 19.8% to \$5.7 trillion and represent 13.4% of all assets held by SEC-registered investment advisers. The median AUM for foreign advisers rose in 2008 to \$908 million, which is more than 6 times the median AUM of all advisers.

When foreign SEC-registered advisers are aggregated by their principle country, several interesting facts are worth noting. The United Kingdom's¹⁰ 191 advisers account for 51.7% of foreign AUM and manage \$2.9 trillion total AUM (and if counted as a state, they would be the fourth largest in terms of AUM) [for a complete listing of foreign-based SEC-registered investment advisers aggregated by country, see Appendix 2]. Canada has the second largest group of SEC-registered advisers with 88, but their \$659 billion AUM is third behind Japan's 21 advisers that manage \$853 billion. Both Spain and India grew in AUM by over 6,500% during the past year; 7 countries/territories more than doubled their aggregate AUM in 2007, such as the Guernsey Channel Islands which experienced growth of 288%.

Employees

As measured by the number of employees, SEC-registered investment advisers tend to be small businesses. Firms with five or fewer employees make up nearly half of all advisers (49.2%). Firms with 50 or fewer employees make up approximately 90.1% of SEC-registered advisers. Only 100 firms reported employing more than 1,000 persons.

C11: Employees of Investment Adviser Firms

Number of Employees	# of IA Firms with “x” number of employees	# of IA Firms with “x” number of employees who perform investment advisory functions	# of IA Firms with “x” number of employees who are registered representatives of a broker-dealer
0	N/A	180	7,134
1 to 5	5,427	7,147	2,393
6 to 10	2,081	1,611	546
11 to 50	2,434	1,559	614
51 to 250	784	402	203
251 to 500	127	55	44
501 to 1,000	77	46	46
More than 1,000	100	30	50

Advisory Personnel. Most investment advisers employ a small number of persons who perform investment advisory functions. 7,147 firms (64.8%) reported 1-5 advisory personnel, nearly the same percentage reported for the past several years. The percentage of advisers reporting 6-10 employees in an advisory role has remained relatively steady as well, totaling 1,611 (or 14.6%). 1,559 advisers (or 14.1%) report 11-50 employees engaged in advisory activities, up slightly from previous years. Only 4.8% of firms report over 50 employees engaged in advisory activities. The number of advisers reporting that no employees perform investment advisory functions continued its slow decline. Currently, that total is 180 or 1.6%, down from 1.7% in 2007 and 1.8% in 2006.

Registered Reps. Registered representatives of broker-dealers are concentrated in a few advisory firms. A clear majority of SEC-registered advisers (7,134, or 64.9%) do not employ persons who are also registered as representatives of a broker-dealer. This number has increased 7.5% during the past five years. Similarly, of the 1,235 new advisers that registered with the SEC during the year, 803 (or 65%) reported that they do not employ registered representatives. 2,393 firms (21.7%) employ 5 or fewer registered representatives of a broker-dealer. Only 96 firms employ more than 500 registered representatives. Of these, 76 are dual registrants registered as both investment advisers and broker-dealers.

Web Sites

Nearly three-fourths of all investment advisers report that they have a web site address. Continuing a trend from the last several years, advisers maintaining web sites grew to 72.5% in 2008, up from 69.7% in 2007. During the past 6 years, advisers with web sites have increased by 16.2%.

Third-Party Solicitors

There has been a slight decline in the number of advisers reporting that they engage third-party solicitors to obtain referrals of new clients than has been reported in previous years. 6,916 advisers (or 62.7%, up from 61.4% in 2007) reported that they do not use third-party solicitors in their marketing efforts, whereas 3,411 (or 30.9%, down from 31.8% in 2007), utilize between one and five persons or firms to refer clients. Only 29 firms report using more than 250 solicitors for client referrals, down from 34 firms last year.

4,114 firms report that they utilize at least some third-party solicitors, but 4,887 report that they directly or indirectly compensate some persons for client referrals. This would seem to indicate that 773 firms do not use third-party solicitors but compensate at least some of their employees based on clients referred to the firm.

Advisory Activities

Chart C12 compiles the various advisory services currently reported by SEC-registered investment advisers. The two largest categories are advisory services to individuals and to institutional clients. 8,159 advisers (74%) provide portfolio management services to individuals or small businesses, up from 7,548 (or 72.3%) in 2007; 6,961 advisers (63.1%) provide portfolio management to businesses and institutional clients other than investment companies, up from 6,591 in 2007 although remaining the same at 63.1%; and 4,274 advisers (38.8%) report that they provide financial planning services, up from

C12: Investment Advisory Services

Type of Advisory Activity	# of IA Firms providing advisory services	% of IA Firms providing advisory services
Financial planning services	4,274	38.75%
Portfolio management for individuals and/or small businesses	8,159	73.97%
Portfolio management for investment companies	1,470	13.33%
Portfolio management for businesses or institutional clients (other than IC's)	6,961	63.11%
Pension consulting services	1,806	16.37%
Selection of other advisers	3,241	29.38%
Publications of periodicals or newsletters	734	6.65%
Security ratings or pricing services	38	0.35%
Market timing services	168	1.52%
Other	2,663	24.14%

3,802 (36.4%) in 2007. Only 1,470 advisers (13.3%) report that they provide portfolio management services for investment companies. After portfolio management services (whether provided to individuals, investment companies or other institutional clients) and financial planning, selection of other investment advisers represents the next most common service provided by advisers at 29.4%.

Wrap Fee Programs

The IARD information reflects that 516 advisers (4.7%) sponsor wrap fee programs, a slight increase from 2007 (4.4%). Advisers acting as portfolio managers to wrap fee programs totaled 1,170 (10.6%), also a slight increase from 2007 (10.2%). 352 advisers (3.2%) reported that they were both a sponsor of, and a portfolio manager to, wrap fee programs.

Other Business Activities

In 2008, 7,364 advisers (or 66.8%), reported that they are not actively engaged in any business activity other than providing investment advice, up from 6,924 (66.3%) in 2007. However, of these 7,364 advisers, 2,777 (25.2%) indicated that they do, in fact, sell products or provide services other than investment advice to advisory clients. This is noteworthy because advisers selling products or providing services other than investment advice to advisory clients should probably be characterized as engaged in a business other than the provision of investment advice. This apparent incongruity may be caused by the absence of a Form ADV definition or other guidance as to what constitutes being “actively engaged” in a business.¹¹

Only 644 firms (5.8%) report dual registration as a broker-dealer. 408 firms (3.7%) report that they are futures commission merchants, commodity pool operators or commodity trading advisers. 82 firms (0.7%) are real estate brokers, dealers or agents. 1,358 firms (12.3%) report being an insurance broker or agent. 44 firms (0.4%) report that they are either a bank or a separately identifiable department or division of a bank.

Paradoxically, 946 advisers report being registered representatives of a broker-dealer. As we have highlighted in previous years, this is likely the result of confusion among advisers over how to appropriately respond to this question. As worded on Form ADV, only sole proprietors could correctly respond by checking this item. However, there were only 368 advisers operating as sole proprietors in the last year. As we have speculated in previous years, it is likely that the additional advisers checking this item have employees who are registered representatives of a broker-dealer. Similar confusion may also explain the number of advisers reporting to be an insurance broker or agent.

Financial Services Industry Affiliations

A significant number of advisers continue to have related persons engaged in various segments of the financial services industry. However, continuing a trend in recent years, this number decreased in 2008.¹² All categories of related persons experienced slight declines in overall percentages from 2007 with the exceptions of accountants or accounting firms and pension consultants, which each had modest increases (0.28% and 0.13% respectively).

The 2008 statistics relating to investment adviser affiliations with financial services industry entities are as follows:

- 2,681 (24.3%) are affiliated with broker-dealers, municipal securities dealers, or government securities dealers
- 1,604 (14.5%) are affiliated with investment companies
- 3,459 (31.4%) are affiliated with other investment advisers
- 957 (8.7%) are affiliated with futures commission merchants, commodity pool operators, or commodity trading advisors
- 1,205 (10.9%) are affiliated with banking or thrift institutions
- 1,035 (9.4%) are affiliated with accountants or accounting firms
- 628 (5.7%) are affiliated with lawyers or law firms
- 1,909 (17.3%) are affiliated with insurance companies or agencies
- 710 (6.4%) are affiliated with pension consultants
- 602 (5.5%) are affiliated with real estate firms
- 1,580 (14.3%) are affiliated with sponsors or syndicators of limited partnerships

4,820 advisers (43.7%) are not affiliated with any other financial industry entity. 4,378 advisers (39.7%) report that they or a related person are the general partner in an investment-related limited partnership or manager of an investment related limited liability company. This number is down slightly from 41.4% in 2007.

CLIENTELE OF INVESTMENT ADVISERS

Types of Clients

SEC-registered advisers provide services to various types of clients, including individuals and various institutions. Form ADV requires advisers to report various client types within the stated percentage ranges of the categories listed in the chart C13.

As discussed below, the data indicate that large numbers of investment advisers provide services to individuals. 6,905 advisers (62.6%) reported that they serve at least some individual clients who are not high net worth individuals and 7,906 advisers (71.7%) reported serving high net worth (HNW) individuals, defined as those with at least \$1 million in investable assets (not including their primary residence).

A high percentage of advisers also serve institutional clients. For example, 6,198 advisers (56.2%) report serving pension and profit-sharing plans. 5,323 advisers (48.3%) report that they have corporations as clients. 4,529 advisers (41.1%) report serving charitable organizations.

The IARD information also highlights client types that are not served by a large number of advisers. For example, 10,074 advisers (91.3%) do not provide advisory services to banking or thrift institutions; 9,750 advisers (88.4%) do not provide advisory services to state or municipal government entities; and 9,412 advisers (85.3%) do not provide advisory services to investment companies. The final column displays the percentage of advisers that provide services to each type of client.

C13: Types of Advisory Clients By Percentage of Total Clientele

Types of Clients	None	Up to 10%	11-25%	26-50%	51-75%	More than 75%	Total Reporting > 0%	Total as a percentage of IAs
Individuals (other than high net worth individuals)	4,125	1,490	1,171	1,549	1,353	1,342	6,905	62.60%
High net worth individuals	3,124	1,606	1,348	1,871	1,565	1,516	7,906	71.68%
Banking or thrift institutions	10,074	770	81	53	15	37	956	8.67%
Investment companies (including mutual funds)	9,412	788	207	143	72	408	1,618	14.67%
Pension and profit sharing plans (other than plan participants)	4,832	4,270	981	512	161	274	6,198	56.19%
Other pooled investment vehicles (e.g., hedge funds)	7,844	1,081	260	252	185	1,408	3,186	28.88%
Charitable organizations	6,501	3,932	431	118	27	21	4,529	41.06%
Corporations or other businesses not listed above	5,707	4,342	571	233	70	107	5,323	48.26%
State or municipal government entities	9,750	923	191	83	33	50	1,280	11.60%
Other	9,996	586	172	106	38	132	1,034	9.37%

Other Pooled Vehicles/Hedge Funds

In 2008, 3,186 advisers (28.9%) reported that they provide advisory services to “pooled investment vehicles” other than investment companies and pension plans. These other pooled investment vehicles may include hedge funds, private equity funds, and venture capital funds. This is a slight increase in absolute numbers (but a drop in percentage) from 3,162 in 2007.

This year, 1,408 registered investment advisory firms reported that other pooled investment vehicles constituted more than 75% of their clients (these advisers are referred to as “specialists”), compared to 1,421 in 2007 and 1,661 in 2006, a total drop of 15.2% over two years. De-registration of hedge fund advisers, a principal segment of these specialists, after a court struck down the rule requiring such registration (see Hedge Fund Advisers), has driven most of this decline. Despite the decline in the number of firms, the 1,408 pooled vehicle specialists report an aggregate AUM of \$3.0 trillion, up from \$2.3 trillion in 2007 or an increase of 32.1% in one year. Significantly, 44.2% of the advisers serving other pooled investment vehicles specialize in this client type, the highest percentage of advisers specializing in any client type. Indeed, the 1,408 other pooled investment vehicle specialists are second in number only to the 1,516 specialized advisers of high net worth individuals.

HEDGE FUND ADVISERS

Although there are no legal definitions of “hedge fund” or “hedge fund adviser,” this report uses the SEC’s method of determining whether an adviser is a hedge fund adviser – that is, whether the firm manages at least one “private fund.”¹³ This definition results in a much narrower universe than the number of firms that report serving “other pooled investment vehicles.”¹⁴ In 2008, 1,868 firms that manage at least one hedge fund are registered with the SEC, comprising 17% of the SEC-registered universe.

In 2004, the SEC adopted a rule requiring hedge fund advisers to register with the SEC by February 2006. That rule was at least partly responsible for the dramatic growth of advisers that we reported in the 2006 Evolution Revolution report (a net increase of 19.5% or 1,676 firms as of April 2006). Later that year, however, the DC Circuit Court of Appeals struck down the rule. Due to the subsequent de-registration of more than 700 hedge fund advisers, 2007 saw a mere 1.5% growth in SEC-registered advisers.

Natural Persons

The vast majority of advisers, 8,108 (73.5%) provide services to natural persons (i.e., individuals), continuing an upward trend from 2006. In 2006, 69.8% of advisers provided services to natural persons, rising to 71.7% in 2007.

The category of natural persons is subdivided into those individuals denoted as “high net worth (HNW) individuals” and all other individuals, many of whom might be considered “retail” customers. The percentage of advisers that do not provide services to non-HNW individuals decreased to 37.4% in 2008 (down from 39.8% in 2007 and 43.0% in 2006). Similarly, the percentage of advisers that do not provide services to HNW individuals decreased to 28.3% in 2008 (down from 30.2% in 2007 and 33.1% in 2006). More advisers specialized in HNW individuals than any other client type.

Mutual Funds

Contrary to the image often seen in the media – portraying large mutual fund advisers as “typical” – the vast majority of investment advisers are small businesses that do not advise mutual funds. In 2008, only 1,618 advisers (14.7%) reported that they provide advice to investment companies, including mutual funds. While the absolute number of mutual fund advisers has increased since 2007, the percentage of all registered advisers rendering such advice has continued its steady decline since 2002, when 20% of all advisers reported investment companies as clients. In 2008, only 408 advisers (3.7%) reported that 75% or more of their clients are investment companies, but these advisers in aggregate reported AUM of \$8.4 trillion (accounting for 19.8% of all AUM).

Investment Company Clients	Number of Affiliated Advisers	Percentage of Affiliated Advisers	Number of Unaffiliated Advisers	Percentage of Unaffiliated Advisers
Zero	619	38.6%	8793	93.3%
Up to 10%	444	27.7%	344	3.6%
11-25%	117	7.3%	90	1.0%
26-50%	94	5.9%	49	0.5%
51-75%	38	2.4%	34	0.4%
More than 75%	292	18.2%	116	1.2%

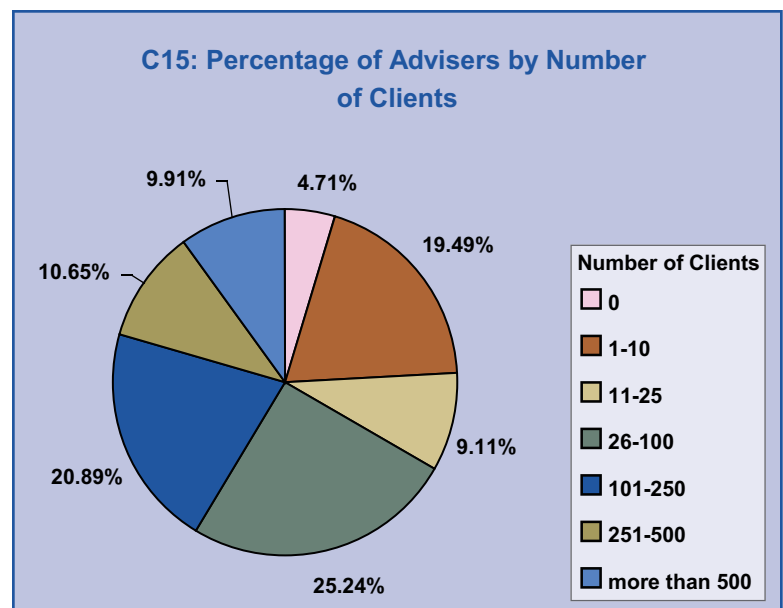
Chart C14 lists the number of advisers reporting that they are affiliated or under common control with a mutual fund.

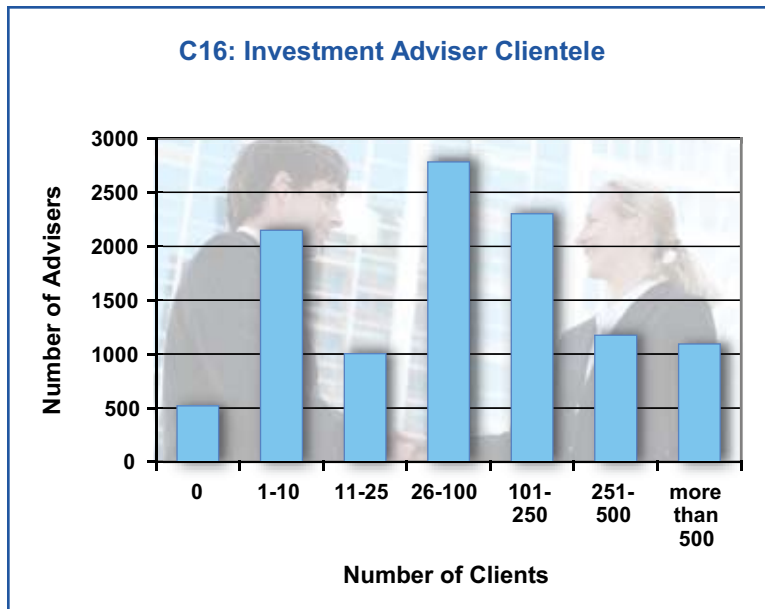
1,618 advisers (4.7%) report investment companies as clients. Of these, 60.1% (985 advisers) are affiliated

with a mutual fund in some way and an additional 21.3% (344 advisers) of unaffiliated advisers categorize less than 10% of their clients as mutual funds. This leaves only 289 advisers (2.6% of all registered advisers) that are unaffiliated with a mutual fund who list mutual funds as more than 10% of their total clients, presumably on a sub-advisory basis.

Number of Clients

Form ADV requires advisers to report how many clients they have within certain ranges. Charts C15 and C16 show that the largest category – comprising 2,784 advisers (25.2%) – consists of advisers with 26 -100 clients. 2008 saw another decrease in the percentage of advisers with 1-10 clients, but at a far less dramatic rate than 2007. The number of advisers with 1-10 clients decreased from 2,426 in 2006, to 2,205 in 2007, and to 2,150 in 2008 – a loss of only 2.5% in





2008 compared with the 9% loss between 2006 and 2007.

Only 1,093 advisers (9.9%) provide investment advisory services to 500 or more clients.

As in previous years, an anomaly exists in that 519 advisers reported that they do not provide services to any clients, yet 212 of these advisers reported having assets under management.

Compensation

Asset-based fees continue to constitute the predominant form of compensation in the investment advisory profession. As noted in chart C17, 10,541 advisers (95.6%) reported charging asset-based fees in 2008, nearly the same as in 2006 and 2007 (95.3% and 95.4%, respectively). However, many advisers reported that they are receiving other forms of compensation. More than one-third of all advisers (3,855 or 35%) reported hourly charges – up 2% from 2007 – while 4,717 advisers (42.8%) reported receipt of fixed fees, also an increase from 2007.

In 2008, 3,362 advisers (30.5%) reported charging performance-based fees, as compared to 31.8% in 2007 and 34.4% in 2006. Of the total number of advisers reporting performance-based fees in 2008, 47% were hedge fund advisers, compared to 51.3% in 2007 and 60% in 2006.

Only 1,025 advisers (9.3%) reported receiving commissions as compensation.

C17: Investment Adviser Compensation

Category of IA Compensation	2006		2007		2008	
	Number of IAs	IAs as a Percent of all Advisers	Number of IAs	IAs as a Percent of all Advisers	Number of IAs	IAs as a Percent of all Advisers
Percent of Client's AUM	9,808	95.32%	9,964	95.39%	10,541	95.57%
Hourly Charges	3,192	31.02%	3,474	33.26%	3,855	34.95%
Subscription Fees	175	1.70%	174	1.67%	168	1.52%
Fixed Fees	3,999	38.86%	4,326	41.41%	4,717	42.77%
Commissions	966	9.39%	975	9.33%	1,025	9.29%
Performance-Based Fees	3,541	34.41%	3,319	31.77%	3,362	30.48%
Other	948	9.21%	1,052	10.07%	1,155	10.47%

PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS

Form ADV, Part 1, Item 8 requests information about an investment adviser's participation or interest in client transactions, including aspects of investment and brokerage discretion over client accounts. Because the questions solicit responses regarding the adviser or any of its related persons, it is not possible to determine whether the responses apply to the specific entity filing the form or whether it applies to the firm's advisory affiliates and any person under common control with the adviser. The data regarding participation in client transactions show very little movement from previous years.

Soft Dollars

The only question in Form ADV, Part 1 that directly relates to soft dollars is Item 8.E: "do you or any related person receive research or other products or services other than execution from a broker-dealer or third party in connection with client securities transactions?" 6,619 advisers (60%) reported in 2008 that they receive such non-execution products or services, consistent with data from 2007.

Following are the 2008 statistics based on Form ADV, Part 1, Item 8 responses:

Proprietary Interest in Client Transactions

- 8% (8% in 2007) of advisers or related persons engage in principal transactions (i.e., buying securities from an advisory client or selling securities the adviser owns to a client).
- 76.3% (74% in 2007) of advisers or related persons buy or sell securities (other than mutual fund shares) they also recommend to clients (personal or proprietary trading).
- 24.8% (25% in 2007) of advisers or related persons recommend securities in which the advisory firm or a related person has an interest.

Sales Interest in Client Transactions

- 5.7% (6% in 2007) of advisers or related persons engage in agency cross transactions, decreasing from 651 in 2007 to 630 in 2008.
- 22.8% (23% in 2007) of advisers or related persons recommend securities to clients where the advisory firm or a related person serves as underwriter, general or managing partner, or purchaser representative of the issuer.
- 11.7% (12% in 2007) of advisers or related persons recommend securities to clients for which the firm or a related person has any other sales interests (other than commissions as a broker).

Investment Discretion or Brokerage Discretion

- 9,775, or 88.6% (9,205, or 88%, in 2007) of advisers or related persons have discretionary authority to select securities to be bought or sold for a client’s account.
- 9,771, or 88.6% (9,202, or 88%, in 2007) of advisers or related persons have discretionary authority to determine the amount of securities to be bought or sold for a client’s account.
- 7,176, or 65.1% (6,969, or 66%, in 2007) of advisers or related persons have discretionary authority to select brokers.
- 6,307, or 57.2% (6,218, or 60%, in 2007) of advisers or related persons have discretionary authority to determine the commission rates paid to brokers.

Additional, Related Questions

- 7,816, or 70.9% (7,197, or 69%, in 2007) of advisers or related persons recommend brokers or dealers to clients.
- 6,619, or 60.0% (6,235, or 60%, in 2007) of investment advisers or related persons receive research or other products or services other than execution from a broker or third party in connection with securities transactions (i.e., soft dollars).
- 4,887, or 44.3% (4,756, or 46%, in 2007) of investment advisers or related persons directly or indirectly compensate employees or third parties for client referrals.

Custody

The IARD data confirm that most investment advisers do not have custody of client cash or securities. In 2008, only 2,523 SEC-registered advisers (22.9%) reported having custody of client cash or bank accounts, while 2,382 (21.6%) reported having custody of client securities. In addition, 2,184 advisers (19.8%) reported that a related person had custody over client cash or bank accounts and 2,090 (18.9%) indicated that a related person had custody of client securities. Of the firms reporting related persons with custody, 316 signified that the related person was a broker-dealer.¹⁵

DISCIPLINARY INFORMATION

It is difficult to draw meaningful conclusions from the disciplinary disclosure information provided in Form ADV, Part 1A for several reasons. The details contained in the disciplinary disclosure reporting pages of Form ADV, Item 11 are not available in aggregate form. Also, the information is reported for the advisory firm and its employees, officers, directors, and advisory affiliates for the past ten years, whether or not these persons or entities were affiliated with the reporting firm during that time. In addition,

the same disciplinary event at one firm may be reported by multiple separate affiliates, and the same disciplinary event may generate affirmative answers to several different questions.

Subject to these limitations, we make the following observations:

- 9,431 (85.5%) registered investment advisers reported no disciplinary history at all, an increase of just over half a percent over last year when 8,864 (84.9%) advisers reported no disciplinary history. This year, 133 of the 1,235 newly registered advisers reported any disciplinary event. While the new advisers make up 11.2% of the total universe of registered advisers, the number of newly registered advisers reporting disciplinary history make up only 8.3% of the 1,599 advisers now reporting such history.
- In contrast, of the 1,466, 14.7% of the 9,795 previously registered firms reported at least one disciplinary event, an increase of 11 compared to firms that were registered in both 2007 and 2008. Of the 244 new hedge fund advisers in 2008, 48 (17.6%) provide a “yes” response to a disciplinary question (up from 15.7% in 2007).
- Of the 1,599 firms reporting at least one answer in the affirmative to the disciplinary questions, 101 advisers reported only pending charges and had no final outcomes on their records. This number is a slight decline over last year, continuing a downward trend since 2004, which has seen pending charges go from 150 to 139 to 133 and down to 112 in 2007. Also, the number of firms reporting pending civil proceedings decreased to 185 from 215 in 2007, a drop of over 16%.

The percentage of firms responding affirmatively to individual disciplinary questions has remained steady from year to year.

- Has any federal, state, or foreign regulatory agency (other than the SEC or CFTC) found you or any advisory affiliate to have been involved in a violation of investment related regulations or statutes? 723 “yes” responses (6.6% vs. 7% in 2007, 6.6% in 2006, 7.5% in 2005 and 2004, 7.9% in 2003, and 8.2% in 2002).
- Has any federal, state, or foreign regulatory agency (other than the SEC or CFTC) entered an order against you or any advisory affiliate in connection with an investment related activity within the last 10 years? 636 “yes” responses (5.8% vs. 6% in 2007, 5.7% in 2006, 6.6% in 2005 and 2004, 7.5% in 2003, and 7.9% in 2002).
- Has any self-regulatory organization or commodities exchange found you or any advisory affiliate to have been involved in a violation of its rules? 712 “yes” responses (6.5% vs. 6.6% in 2007, 6.2% in 2006, 6.5% in 2005 and 2004, 7% in 2003, and 7.3% in 2002).
- Has the SEC or CFTC found you or any advisory affiliate to have been involved in a violation of SEC or CFTC regulations or statutes? 438 “yes” responses

(4% vs. 3.6% in 2007, 3.5% in 2006, 4% in 2005 and 2004, 4.4% in 2003, and 4.9% in 2002).

BASIS FOR SEC REGISTRATION

The vast majority of advisers (9,749, or 88.4%) qualified for SEC registration because they manage more than \$25 million in client assets, roughly the same percentage as in 2007 (87.7%). Of the advisers with \$25 million or more AUM, only 210 reported that they qualified for SEC registration on a basis different than assets under management.

1,085 advisers (9.8%) registered on the basis that they serve as an investment adviser to a registered investment company. However, 1,618 advisers (14.7%) reported that they provide advice to registered investment companies, indicating that 533 of these advisers either selected a different basis for registration or inaccurately reported their types of clients.

The number of newly formed advisers that registered with the SEC during the past year based on the expectation that they would qualify for SEC registration within 120 days of becoming registered increased to 164 in 2008, up 3.8% from 158 in 2007.

This year's statistics on advisers' basis of registration with the SEC are as follows:

- 9,749 selected assets under management of \$25 million or more.
- 30 selected principal office and place of business in Wyoming.
- 516 selected principal office and place of business outside the U.S. Of these, 174 (33.7%) are hedge fund specialists.
- 1,085 selected adviser to registered investment company (an increase of 12, or 1.1%, from 2007).
- 2 selected nationally recognized statistical rating organization (NRSSO) (a decrease of 4 from 2007).
- 333 selected pension consultant (an increase of 14 from 2007).
- 404 reported that the investment adviser controls, is controlled by, or is under common control with an SEC-registered investment adviser with the same principal office and place of business (an increase of 6 from 2007).
- 164 selected newly formed adviser expecting to be eligible within 120 days (an increase of 6, or 3.8%, from 2007).
- 46 selected multi-state adviser (a decrease of 4 from 2007).
- 36 selected Internet-based adviser (an increase of 3 from 2007).
- 3 selected SEC exemptive order (no change from 2007).
- 118 reported they are no longer eligible for SEC registration (a decrease of 17, or 12.6%, from 2007).

APPENDIX 1
U.S.-based
SEC-Registered
Investment Advisers

State/Territory	# of Firms	Total AUM	Disc AUM	Non-Disc AUM
ALASKA	8	\$19,472,329,017	\$19,274,037,596	\$198,291,421
ALABAMA	73	\$133,450,833,202	\$61,965,837,702	\$71,484,995,500
ARKANSAS	33	\$9,207,229,084	\$8,000,145,222	\$1,207,083,862
ARIZONA	123	\$186,187,445,439	\$180,922,694,324	\$5,264,751,115
CALIFORNIA	1413	\$6,372,339,373,304	\$6,017,367,143,930	\$354,972,229,374
COLORADO	261	\$479,923,477,278	\$407,132,448,376	\$72,791,028,902
CONNECTICUT	417	\$1,409,921,562,734	\$1,309,747,239,568	\$100,174,323,166
DISTRICT OF COLUMBIA	49	\$139,152,767,260	\$134,532,875,108	\$4,619,892,152
DELAWARE	35	\$539,049,731,765	\$538,394,897,878	\$654,833,887
FLORIDA	415	\$433,935,227,007	\$387,892,414,754	\$46,042,812,253
GEORGIA	240	\$424,395,799,060	\$388,726,379,124	\$35,669,419,936
GUAM	1	\$167,000,000	\$0	\$167,000,000
HAWAII	23	\$12,506,103,599	\$11,646,336,042	\$859,767,557
IOWA	49	\$387,836,974,647	\$333,315,707,432	\$54,521,267,215
IDAHO	22	\$8,805,107,559	\$8,511,009,611	\$294,097,948
ILLINOIS	472	\$1,866,052,003,001	\$1,656,953,841,877	\$209,098,161,124
INDIANA	115	\$136,063,131,067	\$112,084,678,212	\$23,978,452,855
KANSAS	98	\$101,291,238,192	\$96,821,608,292	\$4,469,629,900
KENTUCKY	40	\$24,795,922,039	\$21,146,301,248	\$3,649,620,791
LOUISIANA	47	\$17,168,876,297	\$14,380,863,978	\$2,788,012,319
MASSACHUSETTS	524	\$5,383,597,535,005	\$5,224,058,933,868	\$159,538,601,137
MARYLAND	200	\$738,675,126,550	\$696,852,296,264	\$41,822,830,286
MAINE	21	\$5,669,480,314	\$5,408,766,402	\$260,713,912
MICHIGAN	216	\$149,857,384,708	\$129,560,626,289	\$20,296,758,419
MINNESOTA	191	\$638,087,636,028	\$528,288,729,332	\$109,798,906,696
MISSOURI	139	\$460,684,633,420	\$310,752,654,956	\$149,931,978,464
MISSISSIPPI	20	\$8,034,125,439	\$6,647,507,536	\$1,386,617,903
MONTANA	17	\$8,582,513,615	\$6,340,191,620	\$2,242,321,995
NORTH CAROLINA	161	\$172,622,565,797	\$133,646,234,716	\$38,976,331,081
NORTH DAKOTA	6	\$632,401,455	\$617,097,798	\$15,303,657
NEBRASKA	57	\$38,027,978,402	\$33,046,921,937	\$4,981,056,465
NEW HAMPSHIRE	61	\$17,619,244,090	\$13,066,893,049	\$4,552,351,041
NEW JERSEY	295	\$1,574,843,158,203	\$1,435,490,057,185	\$139,353,101,018
NEW MEXICO	24	\$56,909,767,018	\$56,427,059,820	\$482,707,198
NEVADA	35	\$14,180,801,669	\$13,161,349,795	\$1,019,451,874
NEW YORK	1547	\$9,780,682,485,321	\$8,830,368,262,827	\$950,314,222,494
OHIO	300	\$462,830,546,182	\$360,505,510,870	\$102,325,035,312
OKLAHOMA	58	\$23,145,863,036	\$13,859,244,746	\$9,286,618,290
OREGON	116	\$76,890,107,654	\$53,370,243,718	\$23,519,863,936
PENNSYLVANIA	429	\$2,237,077,482,356	\$2,128,271,159,198	\$108,806,323,158
PUERTO RICO	6	\$6,811,014,222	\$4,699,069,272	\$2,111,944,950
RHODE ISLAND	42	\$9,233,723,562	\$7,971,212,186	\$1,262,511,376
SOUTH CAROLINA	66	\$19,914,756,940	\$17,764,849,703	\$2,149,907,237
SOUTH DAKOTA	4	\$448,920,843	\$230,428,614	\$218,492,229
TENNESSEE	132	\$130,682,604,446	\$119,787,525,563	\$10,895,078,883
TEXAS	571	\$885,459,502,005	\$745,215,703,368	\$140,243,798,637
UTAH	63	\$15,329,120,354	\$13,963,466,949	\$1,365,653,405
VIRGINIA	246	\$258,589,662,206	\$227,334,808,133	\$31,254,854,073
VIRGIN ISLANDS	8	\$2,716,274,276	\$2,716,262,376	\$11,900
VERMONT	24	\$76,321,061,821	\$63,582,735,063	\$12,738,326,758
WASHINGTON	215	\$287,304,434,554	\$271,061,995,292	\$16,242,439,262
WISCONSIN	152	\$302,649,770,514	\$282,878,327,868	\$19,771,442,646
WEST VIRGINIA	14	\$2,837,329,634	\$2,424,239,507	\$413,090,127
WYOMING	27	\$18,482,914,478	\$18,467,717,192	\$15,197,286
TOTAL	9921	\$36,567,154,057,668	\$33,466,654,543,286	\$3,100,499,514,382
NO ADDRESS	553	\$42,194,994,255	\$32,917,837,632	\$9,277,156,623

APPENDIX 2
Foreign-based
SEC-Registered
Investment Advisers

Country/ Territory ¹⁶	Advisers	Total AUM	Disc AUM	Non-Disc AUM
ARGENTINA	1	\$210,000,000	\$60,000,000	\$150,000,000
AUSTRALIA	20	\$153,362,076,582	\$151,750,438,182	\$1,611,638,400
AUSTRIA	2	\$40,670,706,000	\$1,343,396,000	\$39,327,310,000
BAHAMAS	7	\$100,836,019,951	\$100,822,243,427	\$13,776,524
BAHRAIN	1	\$6,263,711,832	\$6,263,711,832	\$0
BARBADOS	1	\$611,100,000	\$611,100,000	\$0
BELGIUM	2	\$14,814,787,483	\$14,814,787,483	\$0
BRAZIL	1	\$2,600,000	\$2,600,000	\$0
CANADA	88	\$659,254,728,313	\$598,408,891,179	\$60,845,837,134
CHILE	1	\$217,701,102	\$0	\$217,701,102
CHINA	42	\$165,205,512,119	\$156,807,973,746	\$8,397,538,373
CYPRUS	3	\$2,130,017,253	\$2,130,017,253	\$0
DENMARK	2	\$20,612,244,897	\$2,040,816,326	\$18,571,428,571
FRANCE	8	\$8,325,318,841	\$7,755,179,518	\$570,139,323
GERMANY	4	\$105,788,115,335	\$94,854,993,937	\$10,933,121,398
GREECE	1	\$20,000,000	\$20,000,000	\$0
HUNGARY	1	\$0	\$0	\$0
INDIA	4	\$10,655,937,500	\$10,655,937,500	\$0
IRELAND	7	\$20,285,596,117	\$20,285,596,117	\$0
ISRAEL	3	\$538,849,843	\$538,380,348	\$469,495
ITALY	1	\$0	\$0	\$0
JAMAICA	2	\$0	\$0	\$0
JAPAN	21	\$853,329,530,331	\$796,129,471,314	\$57,200,059,017
SOUTH KOREA	4	\$9,267,195,546	\$7,718,361,240	\$1,548,834,306
MAURITIUS	1	\$6,000,000	\$6,000,000	\$0
MEXICO	2	\$916,766,404	\$916,766,404	\$0
MONACO	1	\$35,000,000	\$35,000,000	\$0
NETHERLANDS	5	\$25,059,759,421	\$24,629,185,471	\$430,573,950
NORWAY	3	\$3,394,102,000	\$918,602,000	\$2,475,500,000
PANAMA	2	\$29,165,876	\$20,730,803	\$8,435,073
RUSSIA	4	\$5,198,464,929	\$5,198,464,929	\$0
SINGAPORE	34	\$215,724,716,690	\$197,406,240,913	\$18,318,475,777
SOUTH AFRICA	2	\$4,725,756,159	\$4,725,756,159	\$0
SPAIN	2	\$81,661,902,175	\$81,661,902,175	\$0
SWEDEN	1	\$20,000,000	\$20,000,000	\$0
SWITZERLAND	20	\$72,674,589,165	\$71,267,344,257	\$1,407,244,908
TAIWAN	3	\$4,402,265,969	\$4,402,265,969	\$0
THAILAND	2	\$17,340,620,000	\$14,993,690,000	\$2,346,930,000
UNITED ARAB EMIRATES	1	\$13,600,000	\$6,400,000	\$7,200,000
UNITED KINGDOM & TERRITORIES/ DEPENDENCIES	245	\$3,083,292,215,981	\$2,789,102,323,385	\$294,189,892,596
BERMUDA	24	\$110,683,265,447	\$96,604,447,096	\$14,078,818,351
BRITISH VIRGIN ISLANDS	6	\$3,320,125,609	\$3,319,075,609	\$1,050,000
CAYMAN ISLANDS	13	\$7,437,080,837	\$6,133,872,087	\$1,303,208,750
GUERNSEY	5	\$11,051,880,791	\$10,765,282,105	\$286,598,686
ISLE OF MAN	4	\$7,587,895,461	\$7,487,895,461	\$100,000,000
JERSEY	2	\$5,457,766,461	\$5,457,766,461	\$0
UNITED KINGDOM	191	\$2,937,754,201,375	\$2,659,333,984,566	\$278,420,216,809
URUGUAY	1	\$16,956,185	\$13,895,191	\$3,060,994
FOREIGN TOTAL	556	\$5,686,913,629,999	\$5,168,338,463,058	\$518,575,166,941

ENDNOTES

- 1 Electronic Filing by Investment Advisers; Amendments to Form ADV, SEC Rel. No. IA-1897, available at <http://ftp.sec.gov/rules/final/ia-1897.htm#secib>
- 2 Investment advisers that do not manage in excess of \$25 million are regulated by the states. Pursuant to a variety of exemptions, however, certain types of these advisers are permitted to register with the SEC (e.g., pension consultants, advisers to mutual funds, Internet advisers, and multi-state advisers).
- 3 10,018 of 11,030 advisers indicated a fiscal year end of December 31.
- 4 The AUM reported by investment advisers in all three categories (discretionary, non-discretionary, and total) overstates actual AUM because more than one investment adviser can “claim” the same AUM. For example, an adviser that allocates assets among mutual funds on a discretionary basis will report a subset of the same assets that the advisers to these funds report. Similarly, a subadviser to a fund may count the same AUM as the primary manager of the fund. We do not know, however, the extent to which AUM figures are overstated.
- 5 All of the figures throughout this report have been calculated from the source data and then rounded. In some instances this creates what appear to be inconsistencies within the document between multiple data points (rounding error). Any discrepancy between multiple rounded data points is attributable to rounding error.
- 6 Current Dollar and “Real” Gross Domestic Product, annual GDP in billions of current dollars, available at <http://www.bea.gov/national/xls/gdplev.xls>.
- 7 Data in this section is based on the primary business address listed in Form ADV. For example, if an adviser is located in 10 states and headquartered in Virginia, but lists Baltimore as its primary business address, all of the adviser’s data for this section will be attributed to Maryland.
- 8 Advisers that did not list an address are excluded from all international, national, and state calculations in this section.
- 9 The United States includes all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.
- 10 The United Kingdom does not include territories or dependencies. A combined total for the United Kingdom and its territories/dependencies is in Appendix 2.
- 11 Item 6.B.(3) of Form ADV Part 1A asks, “Do you sell products or provide services other than investment advice to your advisory clients?”
- 12 A related person is defined for Form ADV purposes as “any advisory affiliate and any person that is under common control with your firm.” Advisory affiliates include (1) all of an adviser’s officers, partners, or directors (or any person performing similar functions); (2) all persons directly or indirectly controlling or controlled by the adviser; and (3) all of the adviser’s current employees (other than employees performing only clerical, administrative, support or similar functions).
- 13 A hedge fund adviser has reported (1) that its clients include “other pooled investment vehicles (e.g., hedge funds);” (2) that it, or a related person, is a general partner in an investment-related limited partnership, or a manager of an investment-related limited liability company; and (3) at least one entity in Schedule D, Item 7. Because the Form ADV filing system has not been configured to reflect the invalidation of the hedge fund registration rule, the SEC staff issued guidance for hedge fund advisers in answering the form. See guidance at <http://www.sec.gov/divisions/investment/iard.shtml#staffguidance>. This guidance is optional; therefore the hedge fund adviser data may not be entirely consistent year-to-year.
- 14 Of the 3,186 advisers that report having at least one client that is an “other pooled investment vehicle,” only 58.6% are hedge fund advisers.
- 15 Although the percentage of advisers reporting custody of client cash, bank accounts and securities has modestly declined each year since 2006, it is still more than double the percentage reported immediately prior to implementation of the revised SEC custody rule in April 2004. A probable cause for these numbers is that the rule withdrew several SEC no action letters previously relied upon by many advisers engaged in activities that would otherwise have given rise to custody. Under the revised rule, many SEC-registered advisers who maintain client accounts with third party “qualified custodians” that provide clients (or an independent representative of the client) with at least quarterly statements are no longer subject to the previous, potentially burdensome custody requirements. These included a surprise annual audit and delivery of audited balance sheets to those clients for which the firm was deemed to have custody. Thus, the revised rule eliminated the consequences which previously may have deterred some advisers from engaging in activities that would have led to the firm having custody.
- 16 Country/Territory names are based off of the “conventional short form” listed in The World Factbook, available at <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

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