Presentation to the SEC’s Asset Management Advisory Committee

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Gail Bernstein, General Counsel
Investment Adviser Association
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IAA Presentation

- Profile of Smaller Advisers, IAA Industry Snapshot
- Business Environment for Smaller Advisers
- Regulatory Considerations for Smaller Advisers
- Other Regulatory Challenges
A statistical look at the almost 14,000 SEC-registered investment advisers, based on their Form ADV filings.

All data in this presentation is from Form ADV Part 1A unless otherwise noted.
Assets Under Management Reached a Record High in 2020
Total Industry Assets Under Management, $ Trillions

[Graph showing the increase in assets under management from 2000 to 2020, distinguishing between discretionary and non-discretionary assets.]
The Number of Clients Reached a Record High in 2020

Millions

Non-asset management clients did not use asset management services but received other types of investment advice, such as help with developing a financial plan.
Employment Reached a Record High in 2020

Number of Non-Clerical Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>707,097</td>
</tr>
<tr>
<td>2013</td>
<td>719,638</td>
</tr>
<tr>
<td>2014</td>
<td>750,795</td>
</tr>
<tr>
<td>2015</td>
<td>781,335</td>
</tr>
<tr>
<td>2016</td>
<td>778,002</td>
</tr>
<tr>
<td>2017</td>
<td>805,623</td>
</tr>
<tr>
<td>2018</td>
<td>835,124</td>
</tr>
<tr>
<td>2019</td>
<td>871,971</td>
</tr>
<tr>
<td>2020</td>
<td>879,755</td>
</tr>
</tbody>
</table>
The Small-Large Divide
2020

Most Advisers are Smaller . . .
Number of Advisers

- Under $100 million: 1,705
- $100 million to $1 billion: 7,963
- $1 billion to $5 billion: 2,613
- $5 billion to $100 billion: 1,414
- Over $100 billion: 185

. . . While Larger Firms Manage Most of the Assets
Assets, $ Billions

- Under $100 million: $48
- $100 million to $1 billion: $2,863
- $1 billion to $5 billion: $5,921
- $5 billion to $100 billion: $29,770
- Over $100 billion: $71,444
Most Advisers are Small Businesses

Number of Adviser by Number of Non-Clerical Employees, 2020

Over 8 in 10 advisers (87.9%) have 50 or fewer employees.

The median number of employees is 8.
Smaller Advisers Account for a High Proportion of Employees Relative to Assets Managed, 2020

Assets under management vs. Non-clerical employees

<table>
<thead>
<tr>
<th>Adviser Assets Under Management</th>
<th>Under $100 million</th>
<th>$100 million to $1 billion</th>
<th>$1 billion to $5 billion</th>
<th>$5 billion to $100 billion</th>
<th>Over $100 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-clerical employees</td>
<td>0.0%</td>
<td>2.6%</td>
<td>10.7%</td>
<td>5.4%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Assets under management</td>
<td>7.0%</td>
<td>10.7%</td>
<td>27.1%</td>
<td>30.0%</td>
<td>64.9%</td>
</tr>
<tr>
<td></td>
<td>30.0%</td>
<td>39.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Smaller Advisers Had Stronger Employment Growth
Change in Number of Non-Clerical Employees, 2020

Note: “Same adviser” are advisers that were in the size category at the beginning of the period.
The Smaller Adviser Landscape is Dynamic
Number of Advisers, 2020

<table>
<thead>
<tr>
<th>Adviser Assets Under Management</th>
<th>New</th>
<th>Terminated</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100 million</td>
<td>403</td>
<td>263</td>
<td>140</td>
</tr>
<tr>
<td>$100 million to $1 billion</td>
<td>647</td>
<td>363</td>
<td>284</td>
</tr>
<tr>
<td>$1 billion to $5 billion</td>
<td>58</td>
<td>93</td>
<td>-35</td>
</tr>
<tr>
<td>$5 billion to $100 billion</td>
<td>22</td>
<td>25</td>
<td>-3</td>
</tr>
<tr>
<td>Over $100 billion</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

Terminated advisers were approximately 10 years old, on average.

Note: New and terminated advisers based on comparisons of Form ADV filings as of April 8, 2021, and as of May 25, 2020.
Most Advisers Have 1 or 2 Offices
Number of Advisers by Number of Offices, 2020

The majority of advisers (61.9%) have only 1 office.

Over 80% have only 1 or 2 offices.
Asset Management is a Main Street Profession

<table>
<thead>
<tr>
<th>State</th>
<th>Code</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>421</td>
<td></td>
</tr>
<tr>
<td>DC</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>DE</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>HI</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>MA</td>
<td>602</td>
<td></td>
</tr>
<tr>
<td>MD</td>
<td>210</td>
<td></td>
</tr>
<tr>
<td>NH</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>NJ</td>
<td>322</td>
<td></td>
</tr>
<tr>
<td>PR</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>RI</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>VT</td>
<td>28</td>
<td></td>
</tr>
</tbody>
</table>
Advisers Focused on Individual Investors are Small

In 2020, 4,634 advisers (33.4%) focused on individual investors.*
On average, these firms had:

- $355 million in assets under management
- 9 employees
- 2 offices
- 3,129 individual clients
- 2 institutional clients

Advisers managing assets for individual clients, no pooled vehicle assets, and no more than 10 institutional clients.
Business Environment for Smaller Advisers

- Competition challenges: scalability, technology/infrastructure, M&A
- Outsourcing: costs and vendor management
- Getting attention from and having leverage over vendors
- Cybersecurity and privacy challenges
- CUSIP and benchmark licensing fees
Regulatory Considerations for Small Advisers

- Legal definition of small entity for Reg Flex purposes
- Tailor regulations and compliance expectations to objectives of regulations and firms’ size and business model
- Consider cumulative impact of regulations and compliance expectations
- Streamline disclosure requirements – Plain English
Regulatory Challenges

- Use of proxy advisory firms
- Limited access to the bond markets
- Complexity of the Custody Rule
- Cyber/data protection
- E-delivery
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