

2015 YEAR IN REVIEW



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LETTER FROM PRESIDENT & CEO AND BOARD CHAIR

December 31, 2015

As the leading association serving investment advisers, we are proud to have advanced the interests of our strong and growing community in 2015. The investment advisory industry is vibrant and, with its thousands of small businesses, has become an even more vital asset to investors, to our economy, and to the capital markets. From 2014 to 2015, the number of federally registered investment advisers grew by a healthy 5.3 percent, adding 578 advisers for a total of 11,473 firms. The industry hired more than 31,000 new non-clerical employees and now employs more than 750,000 individuals. The number of clients investment advisers serve stands at nearly 30 million—that's up 6.8 percent, or nearly two million. And our firms are managing significantly greater assets—a total of nearly \$67 trillion in RAUM, an impressive 8.1 percent increase over 2014.

But the statisticians don't have to deal with the daily reality of regulatory pressures, heightened competition, and cybercrime—we do. Advisers as an industry are well-positioned for the future, but each firm continues to face significant challenges. That's why the IAA is dedicated to advocating for you, providing you with constantly updated compliance information and tools, giving you resources to help you manage your practice and grow your business, and helping you network with your peers.

The Investment Adviser Association has been in the forefront of representing your interests before federal legislators and before domestic and foreign regulators. This year, the IAA has addressed a wide range of regulatory proposals—including proposals that would subject all advisers to anti-money laundering rules, make advisers report significantly more data on Form ADV, and require advisers to hire and pay for independent third parties to perform compliance reviews for the SEC. The IAA strives to ensure that regulation is appropriately tailored so that you can continue to run your businesses and serve your clients without undue burden. And going forward, the IAA's role will become even more critical. The legislative and regulatory moves now under consideration could have profound impacts on the investment advisory industry. It is crucial that the industry support the IAA to ensure that your views on significant issues are not only heard, but understood.

We appreciate your continued participation in the IAA and we look forward to working with all members—not only to strengthen an already trusted voice in the government and regulatory arenas, but to provide enhanced services and benefits of even greater value to our members.



Karen L. Barr
IAA President & CEO



Jon Roberts
*Chair, IAA Board of
Governors*

THE CHALLENGES AHEAD IN 2016

Looking ahead to 2016, the investment adviser industry will continue to face potentially seismic regulatory changes, each of which has the potential to complicate business practices and add to the costs and the burdens of compliance. The IAA is already deeply involved with the relevant regulators to ensure that the regulatory framework for advisers is as effective and efficient as possible, fostering investor protection and capital formation while minimizing the burdens on advisers, their clients, and their businesses.

First and foremost, the IAA will continue to lead the charge for maintaining the SEC as the primary regulator for investment advisers and opposing any efforts to authorize an SRO for investment advisers. In an effort to address oversight of advisers, the SEC is expected to issue a proposal to require all federally registered investment advisers to hire independent third parties to perform compliance reviews of their firms. The IAA has expressed important concerns about these reviews and expects to continue its vital advocacy on this front in the year ahead. The IAA will also continue its engagement with respect to congressional and regulatory activities related to fiduciary duty and the “harmonization” of the rules governing brokers and advisers.

SEC Chair Mary Jo White is pressing forward with her five-part rulemaking agenda aimed at asset managers, which she hopes to complete in 2016. To date, the SEC has formally proposed three initiatives: enhanced data collection, including by revising Form ADV to require all advisers to report additional data about their business and their clients’ investments; enhanced management of liquidity risks by mutual funds; and a new framework for regulating the use of derivatives by registered investment companies. Anticipated in 2016 are proposals that would require all advisers to create transition plans to prepare for a major disruption in their business and the potential need to transition their clients’ assets if and when circumstances warrant, and that would mandate annual stress testing by large funds and large advisers.

Chair White’s aggressive asset management rulemaking agenda is intended to improve the SEC’s ability to monitor and regulate the industry. The IAA supports the SEC’s lead role in that regard, and will continue to engage with the Financial Stability Oversight Council (FSOC),



The IAA is an excellent compliance and legal resource; the information is always up-to-date and accurate.”

DIRECTOR, ADMINISTRATION, \$36 BILLION AUM

Treasury, the Office of Financial Research, the CFTC, and the Federal Reserve Board, as well as with foreign regulators on assessing whether asset managers pose potential systemic risks and how to address any risks that might exist.

In 2015, the IAA objected strongly to the Treasury Department's characterization of advisers as a way for money launderers to enter the financial system and argued that advisory activities that do not present any meaningful risk of money laundering should be carved out from its proposed AML rules for advisers. Nevertheless, 2016 will likely bring implementation of those rules in some form, and the IAA will provide valuable resources to members to assist in compliance with whatever new AML requirements may be mandated.

All of these major regulatory initiatives—third party reviews, asset management rulemaking at the SEC, new AML requirements—are not all that face investment advisers in the coming year. We are also likely to see the re-emergence of Dodd-Frank-mandated rules on executive compensation and a proposal to revise the definition of accredited investor, along with a myriad of CFTC and NFA requirements, including those related to cross-border swap transactions and cybersecurity. And the industry faces enormous challenges on the international front as well, with dramatic changes to the European regulatory environment (through MiFID II, among other things) and in Asia. IAA members will continue to have the opportunity to share insights and practices on these issues through the International Committee.

These regulatory challenges are real, but so is the strength of the IAA and our membership. We encourage all of you to become involved in our process. Give us your feedback, your thoughts on these proposals, and your views on their real-world impacts. When we work together, our voice is not just louder—it is more convincing, making our chances of success greater.



Bob Grohowski
IAA General Counsel



The IAA staff is so connected to the SEC and Washington, D.C.—serving as our eyes and ears to the regulators of the investment adviser industry. I could not do my job right without your insight.”

COMPLIANCE OFFICER, \$2.8 BILLION AUM

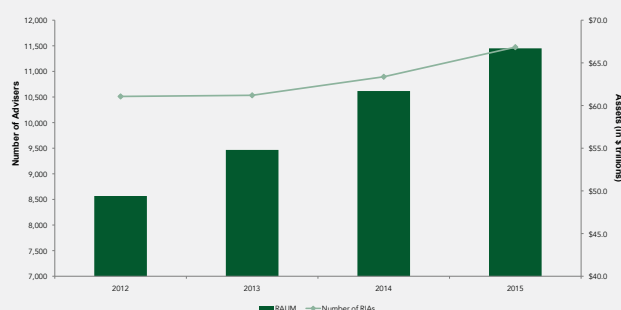
By the Numbers: The Investment Advisory Profession in 2015

Our industry experienced impressive growth across all major metrics in 2015, as evidenced by the findings of *2015 Evolution Revolution*, the IAA's 15th annual look at data reported by SEC-registered advisers on Form ADV. As the graphs on this page illustrate, the number of federally registered investment advisers continued to grow—up 5.3 percent, or 578 advisers, for a total of 11,473 firms; total Regulatory Assets Under Management

(RAUM) hit \$66.7 trillion, an 8.1 percent increase; the number of non-clerical employees jumped by 31,000 to more than 750,000 individuals; and the concentration of assets under management showed that our industry remains dominated by small businesses—with 54 percent of RAUM managed by just 128 firms, each managing \$100 billion or more in RAUM.

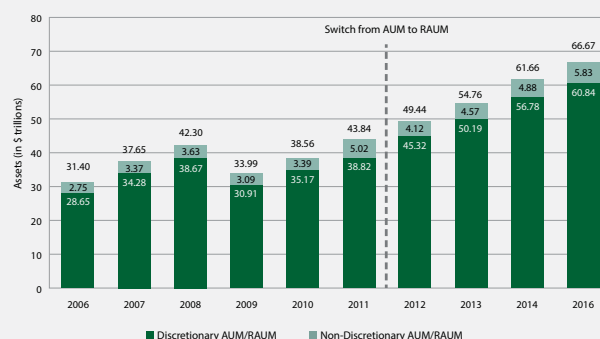
Number of SEC-Registered Investment Advisers and RAUM

Industry Continues to Grow



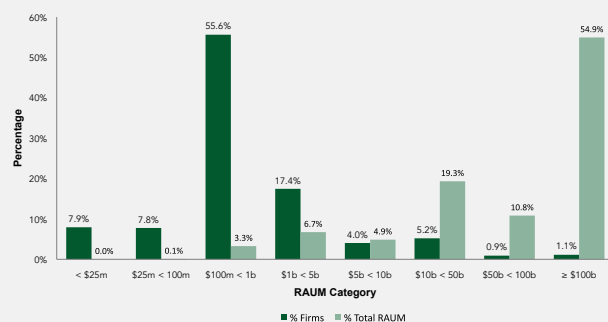
Total Regulatory Assets Under Management (RAUM)

RAUM Continues Steady Growth to Over \$66 Trillion



Concentration of Regulatory Assets Under Management by RAUM Category

Half of All RAUM is Concentrated in the 128 Largest Advisers



Investment Adviser Non-Clerical Employees

Number of Employees	Number of Advisers		
	2013	2014	2015
1 or 5	3,620	3,680	3,855
6 to 10	2,465	2,536	2,721
11 to 50	3,211	3,365	3,513
51 to 250	922	986	1,033
251 to 500	131	146	162
501 to 1,000	87	85	93
More than 1,000	97	97	96

	Number of Employees		
	2013	2014	2015
Total	707,097	719,638	750,795
Average	67	66	65
Median	8	9	8

ADVOCACY



Advocacy is at the heart of the Investment Adviser Association's mission. As the leading organization solely dedicated to representing the interests of SEC-registered investment advisory firms, the IAA serves as the voice of the investment advisory profession on key policy and regulatory issues affecting our members. As the legislative and regulatory landscape has grown increasingly complex, IAA members and staff have engaged in constructive advocacy efforts with the U.S. Congress, the SEC, the Department of Labor, the Commodity Futures Trading Commission, the Department of the Treasury, international regulators, and other industry organizations to protect and advance advisers' interests across a broad spectrum of legislative, regulatory, and policy initiatives of critical importance to our profession.

Legislative Advocacy

Working closely with its members, the IAA successfully represented investment advisers' interests before Congress in 2015.

The IAA continued its efforts to provide the SEC with sufficient funds for adviser oversight and maintained its steadfast opposition against efforts to impose an SRO—likely to be FINRA—on investment advisory firms. While FINRA has announced that it is not pursuing

legislation to gain authority over advisers “at the present time,” the broker-dealer regulator continued to lay the groundwork for a renewed effort to gain authority over advisers, in the media and with policymakers. The IAA is committed to ensuring that the SEC remains the primary regulator of investment advisers.

Similarly, the IAA opposes attempts by banking regulators to impose bank-like rules on investment advisers. As the primary regulator of asset managers, the SEC is most knowledgeable and in the best position to evaluate and implement any appropriate regulation. Thus, the IAA supported congressional efforts to provide greater transparency regarding the Financial Stability Oversight Council's ability to designate asset managers as non-bank SIFIs (systemically important financial institutions) that would be subject to prudential regulation. Legislation passed the House Financial Services Committee, but has not been taken up by the full House.

The IAA advocated in support of the “Cybersecurity Information Sharing Act,” bi-partisan legislation designed to promote greater information sharing on cyber threats, both among companies and between companies and law enforcement agencies. With the IAA's support, versions of this legislation passed both chambers of

Rep. French Hill (R-Ark.) greets IAA Board Chair Jonathan Roberts during the IAA's 8th Annual Lobbying Day in June. The two discussed the advantages of better funding for the SEC and the disadvantages of an SRO for advisers. Days earlier, the House Financial Services Committee member had stated publicly that he was considering introducing legislation to give FINRA authority to examine investment advisers.



Congress in 2015 and the differences are expected to be resolved by year's end.

The IAA met regularly with lawmakers on the Senate Banking Committee and the House Financial Services Committee throughout the year and arranged for IAA members to meet with legislators and their staffs during its **Eighth Annual Lobbying Day on Capitol Hill** program held on June 10.

IAA members from across the country came to Washington, D.C. to attend about 50 meetings with their senators, representatives, and their staffs during this important grassroots advocacy event. Schwab Advisor Services and TD Ameritrade Institutional also participated in this event.

The IAA and its members continue to serve as an important source of information to policy-makers about investment advisers and their clients and on the many challenges facing the investment adviser community.

Regulatory Advocacy

During 2015, the IAA effectively represented its members' interests before relevant domestic and foreign regulators with respect to a wide range of regulatory rulemaking and other activities affecting advisers' businesses.



SEC OVERSIGHT AND THIRD PARTY REVIEWS

The IAA is the leading voice on behalf of advisers in the debate over the adequacy of the SEC's investment adviser examination program. At the core of this debate is the SEC's oft-mischaracterized and misunderstood annual examination rate for advisory firms, which currently is approximately 1 percent. In 2015, Chair Mary Jo White made it abundantly clear that this issue is a high priority for her remaining tenure at the SEC.

Because Congress is unlikely to provide the SEC with the funding it has requested to hire additional examiners, Chair White has directed her staff to consider alternatives and to prepare a rule proposal **to mandate the use of third parties** by investment advisers for compliance reviews. This may also include determining what role an **SRO**, such as **FINRA**, could play in these reviews. A formal rule proposal relating to third party reviews is expected in 2016.

The IAA has been at the forefront on this important issue, proactively engaging to



As a smaller firm, I value the ability to inquire with the IAA staff and peer members on topics and issues impacting my business and our clients."

PRESIDENT, \$440 MILLION AUM

highlight the potential consequences of requiring third party compliance reviews and exploring viable alternatives the SEC could consider that would be less costly and more effective. Through our Association, **IAA members were given the opportunity to express their feedback and concerns directly to senior SEC officials.** These meetings are part of an important dialogue over the many questions raised by requiring investment advisers to hire and pay for third party compliance reviews—the standards, scope, and frequency of any such reviews; the confidentiality of any work product generated; the qualification process for third parties; and the adequacy of SEC resources to oversee the third parties. And, of course, questions over how much such a third party engagement could cost.

The IAA remains committed to helping the SEC find a workable solution to enhancing its oversight of investment advisers that does not involve an SRO, like FINRA. The IAA will continue to support efforts to provide the SEC sufficient funding to hire additional examiners while urging the SEC to make the most efficient possible use of its existing resources.

THE SEC'S ASSET MANAGER AGENDA: PROPOSED AMENDMENTS TO FORM ADV

In May, the SEC proposed the first of five sets of rulemakings designed to enhance the

SEC's regulation and oversight of the asset management industry. The IAA was on the forefront in commenting on the proposal that would amend Form ADV, the registration form used by all SEC-registered advisers.

Under that proposal, Form ADV would be amended to require advisers to report far more information on the composition of the assets they manage, including detailed information on the use of derivatives in separately managed accounts. Using data drawn from the IAA's *2015 Evolution Revolution* report, the IAA argued that the SEC could easily adjust certain reporting thresholds in the proposal and collect nearly all of the data it sought while reducing the reporting burden for approximately 3,000 smaller advisers. The IAA also highlighted the potential drawbacks to the public disclosure of some of the information on derivatives holdings, urging the SEC to collect the data it needs on a non-public basis. In addition, the IAA provided detailed feedback on virtually every item on the form proposed to be added or modified. The IAA and its members met with SEC officials to discuss these comments and concerns with the proposal, and will continue this dialogue in 2016 in an effort to ensure that any final amendments to Form ADV achieve regulatory goals in as efficient and effective a way as possible.



The IAA provides us with access to staff expertise; access to online compliance materials; and regular reporting on the regulatory landscape.”

VICE PRESIDENT, \$450 MILLION AUM

PROPOSED AML PROGRAMS FOR ADVISERS

After keeping the issue on the back burner for years, the Treasury Department's Financial Crimes Enforcement Network (FinCEN) resurrected and updated its proposal to extend anti-money laundering (AML) regulations to all SEC-registered investment advisers. In a strongly worded November comment letter, the IAA labeled as "simply not true" FinCEN's basic justification for proposing the rule—that without it, money launderers may see investment advisers as a "low-risk way to enter the U.S. financial system." After explaining how the investment advisory business actually works, the IAA letter asserts that advisers "do not provide any way—much less a 'low risk way'—for a client to bypass banks, broker-dealers or any other financial institutions covered by (AML regulations) and enter the U.S. financial system." The IAA urged FinCEN to significantly carve back its proposal, seeking exemptions for a wide range of advisers and advisory services that do not raise money laundering risks. And the IAA argued that implementation of the proposal would place significant compliance cost burdens on advisers—particularly smaller advisers—without yielding significant information for FinCEN. The proposal is still pending.

FIDUCIARY STANDARDS

The IAA has long advocated that all financial professionals who provide investment advice about securities to clients should be subject to the same high standard of care—the fiduciary duty standard under the Investment Advisers Act. To that end, the IAA has urged the SEC to ensure that any rulemaking under Section 913 of the 2010 Dodd-Frank legislation imposing a uniform fiduciary duty on broker-dealers and investment advisers preserves the existing overarching fiduciary principles in the Advisers Act to act in the best interests of their clients. Although there was much debate, the SEC did not propose any new rules under Section 913 this year.

The **Department of Labor**, however, moved forward with its own fiduciary rulemaking. The proposal would significantly expand the definition of "fiduciary" under ERISA to include anyone providing investment advice to a person making retirement investment decisions. The IAA's comment letter supported fiduciary principles and expressed support for the DOL's goal of better protecting retirement plan participants; however, it expressed concerns with the proposed rule as drafted, noting that the DOL's position on how to address conflicts of interest appeared, at least in part, to be based on an "overly simplistic" focus on cost and promoted passively managed investments over active



I value the ability the IAA gives me to learn from my peers and stay current on regulatory issues affecting our business. The IAA watches my back on a variety of issues."

PRESIDENT, \$466 MILLION AUM

management. The IAA argued that it would be “both inappropriate and inconsistent” with fiduciary principles for the DOL to prescribe which investments advisers can recommend. The IAA also urged the DOL to clarify that ERISA fiduciary status for investment advisers begins only when the adviser has established an investment advisory relationship with a specific client and a specific investment mandate involving specific assets and not during pre-contract discussions or RFPs. In addition, the IAA sought clarification as to how the proposed rule would apply to referrals of investment advisers, the provision of services to or marketing conversations with other financial services entities, and the operation of the financial reports and valuation carve-out.

SYSTEMIC RISK

In 2015, regulators around the world continued to discuss and debate whether asset management might pose the potential for systemic risks—those that could threaten the entire financial system—and whether asset managers should be regulated like banks. The IAA strongly advocated on behalf of our industry on these systemic risk issues, both domestically and globally. Domestically, the IAA engaged on these issues with staff of the Financial Stability Oversight Council (FSOC), Treasury, the Office of Financial Research (OFR), the CFTC and the Federal Reserve Board. The IAA and another industry

group refuted in a joint comment letter many assumptions of FSOC, arguing that the asset management industry does not present or amplify risks to the U.S. financial system. The IAA also called for more transparency by FSOC.

Extending these advocacy efforts to the international debate, the IAA made the case in a comment letter to the Financial Stability Board (FSB) and the International Organization of Securities Commissioners (IOSCO) that singling out asset managers for a sector-specific methodology is unwarranted. The IAA instead encouraged the FSB and IOSCO to address any perceived risks directly through monitoring or regulating the activity across all firms and sectors. The IAA also emphasized the importance of assessing the SEC’s initiatives that will enhance the SEC’s ability to monitor for systemic risk and address any relevant concerns.

In a significant victory for the asset management industry, FSOC and international regulators shifted their focus away from designating individual asset management firms as global systemically important financial institutions (G-SIFIs) in favor of a more focused analysis of industry-wide products and activities.

We expect FSOC and the FSB in 2016 to continue along their paths to developing



Most important to us are IAA’s advocacy and advice in interpreting rules.”

PRINCIPAL, \$954 MILLION AUM

activities-based policy recommendations. The IAA will continue to engage with regulators on behalf of our members on these important systemic risk issues.

CYBERSECURITY

Cybersecurity remains a critical challenge facing our industry. During 2015, to help our members tackle the immense task of managing risks associated with cyber threats, the IAA and law firm K&L Gates co-hosted a complimentary five-part webinar series addressing cybersecurity issues. The IAA also continued to hold periodic **Cybersecurity Working Group** calls for members to share information, discuss best practices, and hear from guest speakers. With Phase 2 of the SEC's Cybersecurity Examination Initiative underway, the IAA will continue to monitor regulatory developments and work with members to develop best practices.

Separately, **National Futures Association** (NFA) guidance establishing general requirements for the first "information systems security program" for commodity



pool operators (CPOs) and commodity trading advisors (CTAs) prompted discussions between the IAA and

NFA staff. The IAA will continue to work with members as they prepare for the March 1,

2016 effective date of these **cybersecurity-related policies and procedures** and will seek guidance from NFA staff if and when appropriate.

CFTC AND NFA ISSUES

In 2015, the IAA continued to be actively engaged in representing the interests of its membership before the **Commodity Futures Trading Commission** (CFTC) for firms acting as **commodity pool operators** (CPOs) and commodity trading advisors (CTAs) with the input of the **CFTC Working Group**. Post Dodd-Frank regulatory changes raised a variety of challenging interpretive and practical issues for IAA members, which also must comply with sometimes conflicting SEC regulations. Throughout 2015, the IAA worked with members, CFTC staff and NFA staff to continue to address these interpretive issues related to CPO and CTA regulation, including harmonization between CFTC and SEC regulation governing these entities.

In January, the IAA submitted comments on the CFTC's proposed amendments to CFTC Regulation 1.35, which would exempt registered CTAs that become members of SEFs from requirements to record oral communications that lead to the execution of a transaction in a commodity interest. The IAA strongly supported the proposed oral recordkeeping exemption for CTAs and

requested that the Commission exempt CTAs from the written recordkeeping requirements as well. Final rules are anticipated in 2016.

The IAA continued to monitor developments related to the 2014 IAA comment letter to the CFTC regarding the applicability of CFTC **transactional-level requirements to U.S. activities** of non-U.S. CFTC-registered swap dealers. The non-U.S. swap dealers sought relief from the requirements when entering into swaps with a counterparty that is not a U.S. person. In August, the CFTC staff again extended the no-action relief until September 30, 2016 or the effective date of CFTC action on the matter. The debate surrounding this issue will continue into 2016.

The IAA also continued to press the CFTC staff to act on the IAA's July 2014 **petition for rulemaking**. The petition, submitted jointly with other associations, requests amendments to certain outdated electronic **recordkeeping** requirements applicable to CPOs and CTAs, and requests that the CFTC staff **expand** the list of permissible entities that may maintain records. The IAA will continue to evaluate potential approaches in 2016 to obtain agency relief from these outdated and burdensome recordkeeping requirements.

In September, the IAA and other trade associations withdrew a prior request that

the CFTC staff permit **netting of uncleared swaps** held by registered investment companies and privately offered investment funds for purposes of the net notional calculation in certain CFTC regulations related to registration requirements. The IAA and other industry groups were concerned that the CFTC would include potentially unfavorable conditions in any such relief.

In November, the CFTC issued long-awaited guidance on **CFTC Forms CPO-PQR and CTA-PR**. The FAQs addressed several areas that the IAA and other organizations had included in extensive questions and proposed answers for CFTC staff regarding the CFTC Forms and for NFA staff regarding the NFA Forms. The NFA also issued question and answer guidance regarding **NFA Forms PQR and PR**. The IAA and its members are analyzing these FAQs and considering potential follow-up with the CFTC.

As a result of the concerns expressed strongly by the IAA and others, the NFA has not pursued its initiative to impose capital requirements or certain other customer protection measures on CPOs and CTAs. Instead, the NFA is considering regulation related to disclosure of financial conditions by CPOs and CTAs. The IAA has engaged with the NFA staff on this potential regulatory activity and will continue to do so in the coming year.



The IAA helps us navigate the compliance and regulatory world."

MANAGING MEMBER, \$1 BILLION AUM

INTERNATIONAL REGULATORY ISSUES

During 2015, the IAA continued to focus on key areas impacting investment advisers on the international front. As in past years, the **IAA International Committee** played an important role in supporting the IAA's international regulatory efforts by identifying regulatory developments affecting investment advisers and private funds around the world.

The Committee was instrumental in our advocacy efforts by providing input on IAA comment letters to non-U.S. governmental bodies. With the support of the Committee, the IAA submitted comment letters to key officials in the **European Union** requesting additional time for firms to comply with the new requirements being contemplated under the revised **Markets in Financial Instruments Directive** (MiFID II). The IAA letters urged EU officials to delay implementation of MiFID II for at least a year so that global investment managers could assess the impact of the rules on their business models and implement related compliance controls. It appears that EU officials will indeed delay MiFID II implementation.

In 2015, the IAA also provided comments to the **European Securities and Markets Authority** (ESMA) urging that it recommend to the **European Commission** that it maintain the National Private Placement Regime under

the **Alternative Investment Fund Managers Directive** (AIFMD). The IAA comment letter noted that many non-EU firms continue to operate under and rely on the current Regime and would face significant challenges if the **AIMFD passport** were turned on for these firms and the Regime were eliminated.

In addition to our advocacy efforts, the IAA kept members informed on key regulatory developments around the world. For example, the IAA updated members on **dealing commission** (soft dollar) developments in the **United Kingdom** and reporting obligations of advisers on Bureau of Economic Analysis forms concerning non-U.S. investments and activities. In addition, the IAA kept members up-to-date on the **Shanghai-Hong Kong Stock Connect** program and **remuneration regulation** in the EU.

The IAA also arranged quarterly meetings of the Committee throughout 2015 to discuss issues relating to international compliance, regulation, and market access issues. During these meetings, Committee members discussed and exchanged information on recent developments relating to the Foreign Account Tax Compliance Act (**FATCA**), sanctions on Russia, the India Foreign Portfolio Investment regime, cybersecurity, implementation of AIFMD and MiFID II in the EU, and many other topics.



We value: resources, networking, and advocacy.”

PRINCIPAL, \$1.4 BILLION AUM

COMPLIANCE



As the legislative and regulatory environments have become increasingly complex and challenging for all investment advisory firms, the IAA has assumed a leading role in assisting its diverse membership in understanding their compliance obligations and in providing crucial information on implementing efficient and effective solutions. As the SEC and other regulatory agencies have enhanced their oversight and enforcement activities directed at the investment advisory profession, the IAA has stepped up to offer a broad array of services and resources to help our members address the dynamic legal, regulatory, and compliance landscape.

The IAA legal team serves as an **invaluable resource** for compliance professionals, in-house legal staff, and business executives. During 2015, the IAA responded to approximately 1,000 member requests, including more than **650 requests to the legal staff** for information about legal, regulatory, and compliance issues. Members contacted the IAA legal staff for up-to-date information on legal and regulatory matters, industry practices, and evolving changes in law and regulations from the SEC, DOL, CFTC, Treasury, and various state and foreign entities. The IAA legal staff also **provided information to member firms** on a wide array of topics including: the SEC custody rule; proposed SEC reporting requirements for advisers on Form ADV; FinCEN's proposed rules for anti-money laundering; cybersecurity; CFTC and NFA compliance; SEC enforcement actions including GIPS, private fund expense allocations, and anti-retaliation; SEC inspections; state filing issues; advertising requirements; ERISA and Department of Labor proposed fiduciary rules; and numerous international matters. In addition to responding to individual requests for information, the IAA sent more than **30 IAA Member Alerts** to members and associate members addressing late-breaking legislative and regulatory developments. In 2015 the IAA also created the **IAA Blog** and posted over 20 blog entries on our website on various topics.

The IAA provides members with extensive **legal, regulatory, and compliance resources** on its website (www.investmentadviser.org). Site features include intuitive ways to search for and navigate to content, and its sections highlight the IAA's key issues, upcoming events, and news postings. Updates to the members-only library include a more streamlined way to identify the legal, regulatory, and compliance categories, and a new section was developed for international material.

The **Members Only Area** of the IAA website contains an expanding library of useful and relevant information.

Resources include **Legal, Regulatory, and Compliance Materials**, extensive resources written or compiled by the IAA legal staff that cover every major adviser compliance issue, including electronic delivery, pay to play, portfolio management, disclosure, privacy, and testing, as well as compliance policies for specific rules such as codes of ethics and the compliance program rule. Each topic area includes: (1) IAA guidance on the subject, including any relevant compliance control, (2) IAA comment letters and statements,



We value the amazing IAA legal staff!"

PARTNER, \$10 BILLION AUM

“ The IAA has great conferences and workshops with knowledgeable speakers and to-the-point handouts.”

TREASURER, \$1.8 BILLION AUM

(3) outlines, articles and memoranda from a variety of sources, and (4) links to selected rules, significant no action letters, and other regulatory guidance. In addition, a separate section of the resource library is now devoted to **international issues**. The materials in this section are categorized both as to topic (*e.g.*, soft dollars) and region (Asia, EU, Middle East, etc.).

Also included in the resource library is information relating to **SEC and DOL examinations** (including helpful documents, such as sample document request letters), and **CFTC and Derivatives Regulation**, including **NFA** regulations. The website also includes current and past issues of the monthly **IAA Newsletter**, archived **IAA Member Alerts**, and reports and brochures, including the **Investment Management Compliance Testing Surveys, Evolution/ Revolution reports, Asset Management Operations & Compensation Surveys**, and archived webinars. Collectively, the broad range of IAA compliance resources represents an outstanding value for IAA member firms.

During 2015, the IAA continued to update and expand **IAA compliance materials** in order to inform members of relevant issues and to provide substantive and practical assistance. The IAA added significant resources to its website regarding new regulatory requirements and guidance, including new materials devoted to **cybersecurity** and the **advertising rules**.

The IAA enhanced its services to members by establishing **two new working groups** in 2015 to provide opportunities for members to discuss issues with their peers at bank-affiliated asset managers and private equity fund advisers. The **Bank-Affiliated Asset Managers Working Group** holds periodic calls to provide a forum for IAA members that are affiliated with a bank to discuss business implementation issues related to the Volcker Rule, the interplay among multiple regulators, affiliate issues, and other issues unique to these members. The **Private Equity Fund Advisers Working Group** is designed to provide a forum for IAA members that manage private equity funds or private equity funds of funds to discuss common



The IAA provides excellent updates on legal and regulatory matters and advocates well on behalf of the industry.”

CHIEF OPERATING OFFICER, \$55 BILLION AUM

issues, including the SEC's recent focus on private equity fund advisers, due diligence issues, fee disclosures, and marketing and advertising.

The IAA also held four regional **Small Firm Compliance Roundtables** in conjunction with its 2015 Fall Compliance Workshops in New York, Boston, Chicago, and San Francisco to provide a forum for smaller IAA members to discuss compliance issues and network with peers. In 2016, the IAA expects to launch a **Smaller Advisers Compliance Forum** to build on the roundtables and provide further opportunities for members of IAA firms with limited personnel and resources to network and discuss compliance issues.

In June, IAA released its **tenth annual Compliance Testing Survey**, the most comprehensive compliance testing survey available. This year's effort was overwhelmingly successful, with responses from more than 470 compliance professionals, representing a wide range of SEC-registered investment advisers.

Jointly conducted with **ACA Compliance Group** and member firm **OMAM**, the survey results allow compliance professionals to gain

access to a variety of testing strategies that they can put to practical use at their firms, as well as assist the industry in identifying compliance trends. Specifically, the surveys allow firms to **benchmark their compliance testing practices** against those of other firms; **collect ideas** for new testing techniques that can be used by firms in future testing efforts; assess compliance **testing trends over time** within a variety of specific areas; identify practices that appear to have become **prevalent industry practices**; and assess the impact of current and potential **regulatory requirements and market developments** on advisers' businesses.

This year's survey addressed compliance testing in the areas of business continuity planning, alternative investment products, oversight of third parties, email review, trading issues and errors, personal trading/codes of ethics, and enterprise risk management. The survey also contained trend update questions about cybersecurity, social media, and other compliance hot topics. Not surprisingly, the survey revealed that **cybersecurity** continued to be the top area of concern for compliance professionals in 2015. The complete results of the survey are available at www.investmentadviser.org.



"The IAA provides timely information regarding SEC compliance issues and examination focus, and strong compliance training programs."

CFO/CCO, \$700 MILLION AUM

INFORMATION»ENGAGEMENT» EDUCATION



To help members remain competitive, build their businesses and stay on the right side of regulators, the IAA keeps members fully up-to-date on issues affecting the investment advisory profession—through numerous conferences, workshops, webinars, publications, and electronic communications during the year. Those information tools cover a wide range of business, compliance, and regulatory issues. The IAA also serves as a unique and respected networking resource that facilitates and encourages the exchange of ideas among industry peers.

National Meetings

In April, the IAA held its **2015 Annual Leadership Conference** in Arlington, VA. General sessions featured thought leaders in politics, economics, and business strategy. They included:

- **Sam Richter**, Founder and CEO of SBR Worldwide/Know More! and the Social Selling Institute, presented a fascinating overview of utilizing online information to help build a firm's client base.
- **Greg Valliere**, Chief Political Strategist of Potomac Research Group and an expert on Capitol Hill and Wall Street, discussed Investment Themes from Washington.
- **David Kelly**, Ph.D., CFA, Managing Director and Chief Global Strategist, J.P. Morgan Funds, provided the keynote address on a number of current topics such as economic growth, consumer confidence, and the implication of monetary and fiscal stimulus.
- The Honorable **Scott Garrett**, Member, U.S. House of Representatives and Chairman, House Financial Services Subcommittee on Capital Markets and Government-Sponsored Enterprises provided an insider's view of current priorities in Washington.



IAA President & CEO Karen Barr opens the 2015 IAA Annual Leadership Conference, held outside Washington, D.C. in April.

- Frankie Hughes, President of Ashland Hughes Properties, moderated a “CEO Panel” of senior executive including **Janet Campagna**, Ph.D, CEO, QS Investors, LLC; **Judith O'Connell**, COO and Managing Partner, Champlain Investment Partners; **Maribeth S. Rahe**, President and CEO, Fort Worth Investment Advisors, Inc.; and **Jane Williams**, Founder and Chair, Sand Hill Global Advisors LLC.
- **Robert Daly**, Director, Kissinger Institute on China and the U.S., provided an analytic framework to understand diplomatic relations between the U.S. and China.
- Featured speaker **Edward C. Bernard**, Vice Chairman, T. Rowe Price Group, shared his perspective on trends and developments in the investment management profession.



Mark Your Calendar: The IAA Annual Leadership Conference continues to provide an excellent opportunity for senior executives to meet with each other to explore the many challenges and opportunities ahead. Please join us at the 2016 Annual Leadership Conference scheduled May 4-6, 2016, at the Langham Hotel in Pasadena, CA.

As always, the popular breakout sessions allowed firms to interact in smaller groups based on assets under management to discuss common challenges and opportunities. The conversation continued the next day at a roundtable breakfast where attendees pursued the most interesting topics raised in the breakouts.

This year's Annual Leadership Conference ended with a gala dinner for David Tittsworth, who left the IAA last November after serving as its President & CEO for 18 years. David kept up his custom of entertaining the guests at conference dinners by performing his self-penned song parodies, typically poking fun at outgoing Board members.

Outgoing IAA Board Chair Scott Richter (left) passes the gavel to newly elected Board Chair Jonathan Roberts at the 2015 Annual Leadership Conference.



In March 2015, more than 250 compliance professionals participated in the IAA's **Investment Adviser Compliance Conference** in the Washington, D.C. area. Speakers and panelists included SEC officials, CCOs and compliance professionals, and attorneys from leading law firms. Exhibiting firms educated attendees about their services, resources, and products. The conference agenda addressed current and comprehensive information about all major topics facing investment adviser compliance professionals, including:

- Capitol Hill Update
- Cybersecurity
- Compliance Issues by Client Type
- Building a Compliance Testing Program
- Proxy Voting Policies and Procedures
- Adviser Issues in the European Union
- Hot Topics in CPO/CTA and Derivatives Regulation
- SEC Enforcement
- The Life Cycle of a Trade
- AML, FinCEN, and OFAC Sanction Considerations
- SEC Examinations
- Advertising
- Automated Compliance Issues
- Ethics



Mark Your Calendar: All compliance and legal professionals are encouraged to attend the IAA's 2016 Investment Adviser Compliance Conference to be held on March 10-11 at the Hyatt Regency Washington on Capitol Hill.

Regional and Local Meetings

During the fall of 2015, the IAA hosted its 18th annual series of **Compliance Workshops** in eight cities across the U.S. (Atlanta, Austin, Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, D.C.). The workshops—which attracted more than 400 attendees—addressed a range of current regulatory and compliance issues facing investment advisory firms. Each workshop featured an SEC official who provided an update on current SEC inspection priorities and compliance issues. Each workshop also featured attorneys from leading investment management law firms as well as IAA legal staff. Topics addressed during the workshops included regulatory and legislative developments, compensation and fee issues, advertising, risk management, and technology issues.

The IAA obtains **CLE, IACCP and CPE accreditation** for its Compliance Workshops and its annual Investment Adviser Compliance Conference to help attorneys, compliance professionals, and accountants meet continuing education thresholds.

The IAA held member lunches in conjunction with the Boston and Chicago board meetings in June and September respectively,



providing the opportunity for members to connect with each other and hear expert speakers on Robo-Advisers and Women & Investing. In addition, Board member Charlie Mahar of Tealwood Asset Management hosted a luncheon in Minneapolis, where Karen Barr discussed the challenging regulatory environment facing advisers.

Also in 2015, the IAA piloted regional **Peer-to-Peer meetings**, facilitated by IAA members in Chicago (Rick Adler, Red Arrow Capital, LLC, Mary Keefe, Nuveen Asset Management, and Joan Giardina, Chesley, Taft & Associates, L.L.C.); and in Dallas (Mason King, Luther King Capital Management). The IAA will provide help and resources for any IAA members interesting in launching Peer-to-Peer meetings in their own areas to discuss matters of common concern with other industry professionals.



The IAA's advocacy and outreach to regulators is critically important to our industry."

VICE PRESIDENT, \$825 BILLION AUM

Virtual Meetings/Webinars

The IAA sponsored a number of educational webinars throughout the year. This year, the IAA Board of Governors approved a new member benefit enhancement such that all webinars are now free for members and associate members.

The 2015 webinar series covered a wide range of compliance and business topics. The webinars are recorded and available on the IAA's website:

- April 7—*Socially Responsible Investing (SRI) 101*
- April 9—*GIPS Hot Issues for Investment Advisers*
- May 8—*Compliance Training Techniques*
- May 13—*CFTC Session 1 of 2: CPO and CTA Regulation and Compliance*
- May 14—*Successfully Launching and Growing a Mutual Fund*
- May 28—*Duties and Responsibilities of Compliance Officers*
- June 3—*CFTC Session 2 of 2: Derivatives Regulation and Issues for the Buy Side*
- June 18—*Pay to Play and Other Political Law Issues for Investment Advisers*
- June 9—*Investment Management Compliance Testing Survey Results*

- July 1—*Volcker Rule*
- July 22—*Issues for Advisers with Retirement Plan Clients*
- November 5—*Debunking Mergers and Acquisitions Pricing Myths*
- November 17—*The Future of Wealth Management: Taking Your Advisory Business to the Next Level*
- December 11—*Socially Responsible Investing: Legal and Compliance Issues*
- December 14—*Advanced Socially Responsible Investing*

In addition, the IAA legal team presented two **IAA Member Briefings** in webinar format (February and September), providing IAA members an overview of regulatory and legislative developments pertaining to investment advisory firms.

IAA staff conducts quarterly **Member Orientation Webinars** to help employees at IAA member firms navigate the extensive online legal, regulatory, and compliance library and to acquaint users with the variety of other resources available on the IAA website, including access to the **Online Communities forum**. The IAA expects to continue these types of informative webinars in order to ensure that IAA members understand the resources, services, and materials that are available to them.



I am quickly able to look up legal, regulatory and compliance information. I also appreciate the option to call and talk to the legal team for help.”

COMPLIANCE OFFICER, \$705 MILLION AUM

Going forward, the IAA will sponsor additional educational events focusing on **relevant business issues**. IAA members are encouraged to suggest topics of interest (such as succession planning, technology/operations, portfolio management, leadership, and marketing). The IAA continues to expand these types of offerings to complement its robust legal, regulatory, and compliance services.

Professional Development

In 2015, the IAA continued its co-sponsorship of the **Investment Adviser Certified Compliance Professional** (IACCP) program and the related Investment Adviser Core Compliance Program with National Regulatory Services (NRS). The IACCP program is designed “to advance the compliance profession and to acknowledge the heightened role of compliance professionals in today’s environment.” The IACCP is a professional education program and certification process that consists of five primary requirements: (1) education (generally successful completion of 40 hours of course work); (2) professional work experience (generally two years); (3) passing the certifying examination; (4) adhering to the program’s Code of Ethics; and (5)



fulfilling continuing education requirements to maintain the IACCP designation. The IAA legal team assists NRS in supporting and maintaining the quality of the IACCP program by helping to review and write materials, moderating and speaking at IACCP training sessions, and drafting questions for the certifying examination. The IAA helps increase the visibility of the IACCP on its website and in the *IAA Newsletter*.

The **Chartered Investment Counselor** (CIC) designation, sponsored by the IAA, recognizes individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Virtually all states now recognize the CIC charter for purposes of waiving examination requirements. Information about the CIC charter is available on the IAA website or by contacting the IAA office.



I value being alerted to the ever-changing compliance requirements and how to deal with them.”

CCO, \$759 MILLION AUM

“The IAA’s excellent staff is always available when needed. We value their excellent educational offerings (especially the website, annual compliance conference, regional conference, and webinars).”

PRINCIPAL & CCO, \$925 MILLION AUM

Publications and Surveys

In October, the IAA and NRS published the 15th annual ***Evolution Revolution: A Profile of the Investment Adviser Profession***.

This leading report provides a snapshot of the investment advisory profession, based on information submitted to the SEC by

all registered advisory firms, and analyzes core characteristics of the industry. Among other findings, the 2015 report notes that the total number of investment advisers registered with the SEC increased by 5.3 percent, to 11,473 firms. Total regulatory assets under management (RAUM)

reported by all registered investment advisers increased by 8.1 percent to nearly \$67 trillion. As reported in previous years, a relatively small number of very large advisers manage a high percentage of total RAUM—the 128 largest advisers (those reporting \$100 billion in RAUM or more), collectively

accounted for more than half (54 percent) of all reported RAUM, while only representing 1.1 percent of the total number of SEC-registered advisers. Copies of all ***Evolution Revolution*** reports are publicly available on the IAA website and represent a rich resource for analyzing significant trends and developments in the investment advisory profession.

In June, the IAA conducted its tenth annual **Investment Management Compliance Testing Survey**, whose findings are detailed in the **Compliance** section.

The IAA again co-sponsored the **Asset Management Operations and Compensation Survey** conducted by the Advent Users Group (AUG), an independent non-profit organization comprised of investment professionals. The survey is a potential tool that IAA members can use to evaluate firm operational and compensation practices. The survey and its results focus on firm attributes, technology and operations, and human capital. It’s available on the IAA Website.



“Membership in the IAA is critical for me to do my job effectively.”

EVP, CHIEF COMPLIANCE OFFICER, \$2 BILLION AUM

The **IAA Newsletter** is a key component of the Association's communications activities. The monthly publication includes relevant information about significant legal, regulatory, and compliance developments for investment advisory firms, as well as information about IAA-sponsored events and other activities. In 2015, the IAA introduced business and management content to the Newsletter, and launched **IAA Newsletter Updates**, a page in the Members Only section of the IAA website that posts articles on adviser issues as events occur, between editions of the monthly Newsletter. All employees of member firms are encouraged to subscribe to the newsletter electronically or via USPS as part of each firm's membership benefits.



January. The blog contains entries offering insight and analysis on a wide range of issues affecting investment advisers.

The IAA also uses several electronic platforms to provide members with notice of late-breaking developments and IAA activities.

Our **Member Alert emails** inform members quickly of significant new developments and IAA activities. During 2015, the IAA distributed more than 30 such Alerts to its membership.

The IAA also uses social media channels—**Twitter, LinkedIn and YouTube**—to inform members about timely events, news articles, regulatory actions and more. Members can sign up for the IAA's LinkedIn postings at <https://www.linkedin.com/company/investment-adviser-association> and our Twitter postings at https://twitter.com/IAA_Today.



Electronic Communications

In addition to *IAA Newsletter Updates*, the IAA added the **IAA Blog** to its website in

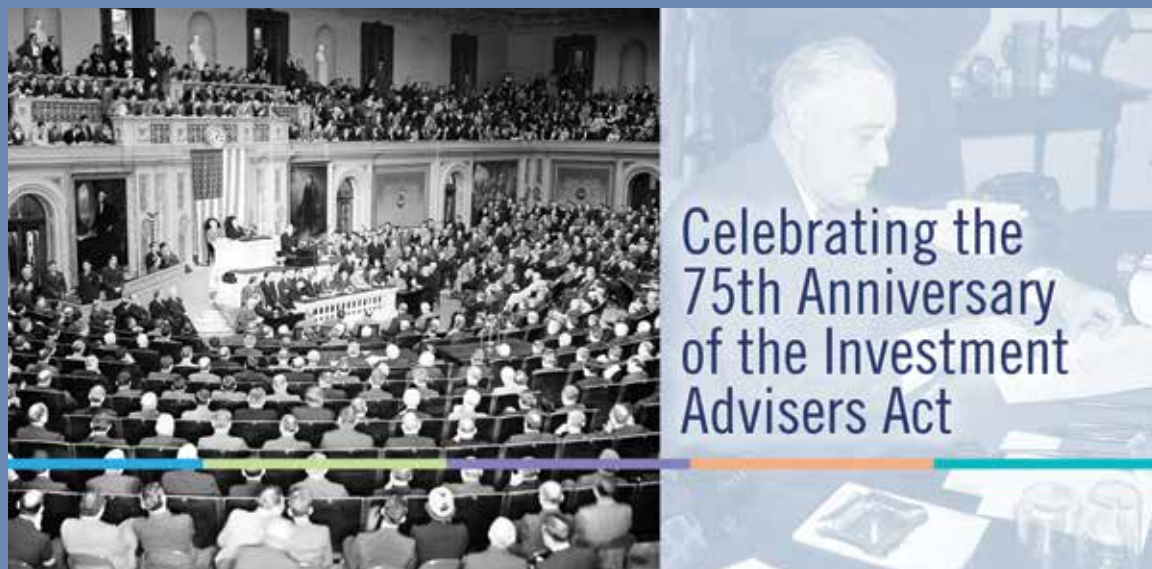


The newsletters are of a great value in keeping up with what is new in the industry and with respect to regulatory matters.”

CHIEF COMPLIANCE OFFICER, \$65 BILLION AUM

CELEBRATING THE 75TH ANNIVERSARY OF THE INVESTMENT ADVISERS ACT

Still Serving our Profession, and our Clients, Well



The investment adviser profession is strong, growing, and more vital than ever—contributing immeasurable value to investors, the capital markets, and to our economy. On August 22, 2015, we celebrated the 75th anniversary of the enactment of the law that gave birth to our profession—the Investment Advisers Act of 1940. The IAA and its founding members can be proud of the role we played in the formulation of the Act, and in its decades of success.

Though it's reached its Diamond Anniversary, the Advisers Act has stood the test of time because it provides a strong, principles-based framework for investor protection and market confidence. That framework has promoted high standards and integrity, almost from the start of our profession. The Act has been amended and new regulations have been promulgated over the years to reflect economic changes and changes in the financial services arena. But the Investment Advisers Act remains true to its original—and still vital—purpose. It has allowed us

to build firms that put our clients first and a robust industry whose contributions to the financial well-being of millions of people and institutions are beyond question.

To observe this important milestone, the IAA asked a number of industry professionals, regulators, and other experts to share their views on the value the Investment Advisers Act has brought. We also asked them to forecast what lies ahead for the Act and its founding principle, the fiduciary duty.

Their written and video responses are collected on a special page of the IAA website dedicated to the Act's 75th anniversary. It includes the observations of no less than 17 industry luminaries:

- **Mary Jo White**, Chair of the Securities and Exchange Commission
- **Arthur Levitt**, former Chairman of the Securities and Exchange Commission
- **Harvey Pitt**, former Chairman of the Securities and Exchange Commission

- **Barry Barbash**, partner at Willkie Farr & Gallagher and former Director of the SEC's Division of Investment Management
- **Karen L. Barr**, IAA President & CEO
- **Andrew Bowden**, Senior VP and General Counsel, Jackson National Life Insurance Company, former Director, SEC Office of Compliance Inspections and Examinations, and former Member, IAA Board of Governors
- **Marie Chandoha**, President & CEO, Charles Schwab Investment Management
- **Bernie Clark**, Executive Vice President, Schwab Advisor Services
- **Henry Holt Hopkins**, retired T. Rowe Price executive and former Chair, IAA Board
- **Arthur Laby**, Rutgers Law School Professor and former SEC Assistant General Counsel
- **Harry O'Mealia**, President & CEO of 1919 Investment Counsel
- **Robert Plaze**, partner at Stroock & Stroock & Lavan LLP, and former Deputy Director, SEC Division of Investment Management
- **Barbara Roper**, Director of Investment Protection for the Consumer Federation of America
- **Timothy A. Schlindwein**, Managing Principal, Schlindwein Associates LLC
- **Marianne K. Smythe**, former partner at WilmerHale and former Director of the SEC's Division of Investment Management
- **Sandra P. Tichenor**, former executive at Nuveen Investments and former Chair, IAA Board of Governors
- **David Tittsworth**, counsel for Ropes & Gray and former IAA President & CEO

HOW THE IAA SHAPED THE INVESTMENT ADVISERS ACT

The investment counsel profession is generally thought to have started in the early 1920s. The post-World War I era included increased business activity and a surge of new securities issuances along with price instability. Both financial practitioners and affluent individuals saw a need for unbiased investment advice—advice personalized to the investor's individual circumstances and unrelated to brokerage commissions, underwriting spreads, or trading profits. These new professionals also distinguished themselves by providing ongoing advice and management and trying to avoid or reduce conflicts of interest.

But the quality of those advisers varied greatly. Some adhered to high standards. Some were con artists. The rest fell somewhere in between. As the Securities and Exchange Commission started to take an inter-

est, a small group of advisory firms joined forces in the summer of 1937 to form the Investment Counsel Association of America, or ICAA—now the IAA. Led by Dwight C. Rose of Brundage, Story and Rose, the ICAA adopted an ethical code of conduct that later became the basis for the fiduciary standards advisers adhere to today. The ICAA required strict adherence to its code of conduct by all members focused on eliminating undue biases that might influence their decisions on behalf of clients.

The SEC held hearings on the need to regulate investment advisers the following year, and then Congress took up the legislative proposals that would become the Investment Company Act and the Investment Advisers Act. Realizing that legislation was likely, a small group of ICAA members and representatives from other firms isolated themselves

in a Washington hotel suite, ordered sandwiches and a case of beer, and spent one entire night drafting a bill, infusing it with standards of conduct and a regulatory focus they could all agree on.

To almost everyone's astonishment, the SEC accepted the draft as it was written, and Congress passed it with only minor changes as the Investment Advisers Act of 1940. The law included registration requirements, restrictions on performance fees, anti-fraud provisions (including the concept of full disclosure and restrictions on principal trading), and recordkeeping requirements. The Supreme Court subsequently interpreted the Advisers Act to impose a fiduciary duty on investment advisers, citing the ICAA's Code of Professional Practice and testimony by ICAA President Dwight Rose during the hearings.

INVESTMENT ADVISER ASSOCIATION STAFF



The IAA Senior Management Team—from left to right, Alex Aderton, Director of Membership and Marketing; Linda Mackey, Director of Finance and Operations; Bob Grohowski, General Counsel; Karen Barr, President & CEO; Neil Simon, Vice President for Government Relations; Herb Perone, Vice President of Communications; and Lisa Gillette, Director of Meetings and Events.



The IAA Legal Team—from left to right, Laura Grossman, Assistant General Counsel; Paul Glenn, Special Counsel; Kathy Ireland, Associate General Counsel; Bob Grohowski, General Counsel; Monique Botkin, Associate General Counsel; and Sanjay Lamba, Assistant General Counsel.



The IAA Membership Team—from left to right, Megan Olson, Member Services and Events Coordinator; Alex Ioannidis, Member Services and Marketing Coordinator; Alex Aderton, Director of Membership and Marketing; Linda Mackey, Director of Finance and Operations; Garrett Honea, Member Services and IT Manager; and Jenny McLaughlin, Administrative Assistant.

IAA 2015 BOARD OF GOVERNORS AND OFFICERS



From left to right:*

Robert Burns

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Charles Mahar

Tealwood Asset Management

Richard Adler

Red Arrow Capital LLC

Richard R. Hough, III

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David Pollitzer

Fenimore Asset Management, Inc.

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Peter Boyle



Joan Giardina



Nancy M. Morris



David Oestreicher



Michael Provine



IAA Officers—Bob Grohowski, Secretary; Scott Richter, Past Chair; Jane Williams, Vice Chair; Jonathan Roberts, Chair; Karen Barr, President & CEO; and Fausto Rotundo, Treasurer.



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