

## **The worst of both worlds? Dual-registered investment advisers**

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### **Abstract**

A 2007 surprise ruling by the Washington D.C. Court of Appeals required brokers to convert their fee-based brokerage accounts to Registered Investment Adviser (RIA) accounts. As fiduciaries, RIAs must place client interests first. These dual-registered investment advisers (DRs) have numerous conflicts of interest including affiliated mutual funds, insurance cross-selling, and mutual fund revenue sharing. Further, DRs appear to charge retail clients higher fees than independent RIAs, and regulators frequently discipline DRs. Finally, DRs invest RIA client assets in institutional classes of the same underperforming mutual funds they offer brokerage clients. Hence, many DRs may fall short of the fiduciary standard.

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## Introduction

In a 2007 surprise victory, the Financial Planning Association (FPA) won a lawsuit against the SEC.<sup>1</sup> This win imposed SEC registration for brokerage firm accounts that charge asset-based fees while leaving unchanged the regulatory framework for commission-based accounts. Post-ruling, many brokerage firms transferred fee-based clients to SEC-registered subsidiaries while keeping existing commission-based accounts intact.<sup>2</sup> These dual registrants must behave as fiduciaries by acting in the best interest of clients in their SEC-registered investment advisory (RIA) subsidiaries, but may observe the less onerous “suitability” standard for Financial Industry Regulatory Authority (FINRA)-registered brokerage clients.<sup>3</sup> In this paper, I study how this unexpected ruling affected the business environment for dual-registered investment advisers (DRs), whether DRs serve RIA clients differently than traditional brokerage clients, and the investment welfare of dual registrants’ RIA clients.

This topic is both timely and relevant. Figure 1 shows that dual registrants oversee about 81% of RIA assets under management (AUM). Dual registrants serve the majority of small retail clients, since most independent RIAs require high minimums.<sup>4</sup> Regulators and advisers continue to debate whether brokerage firms – dual registered or not – should comply with the fiduciary standard for brokerage clients. As industry expert Michael Kitces observes: “The Department of Labor’s fiduciary proposal is driving top broker-dealers to reinvent themselves as fee-based advisory firms before the regulators do it for them.”<sup>5</sup> The SEC identified dual registrants as an exam priority in both 2013 and 2014, noting that:

...representatives of dual registrants, i.e., registrants that are both broker-dealers and investment advisers, and affiliated advisers and broker-dealers may influence whether

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<sup>1</sup> Articles published at the time of the victory indicate that industry participants were surprised by both the initial win and the absence of SEC challenge. See, for example, <https://www.wealthmanagement.com/news/surprise-fpa-wins-lawsuit-against-sec-and-broker-dealer-exemption>, <https://nypost.com/2007/05/16/wrap-that-up/>, <http://nasd-law.com/ubs-mulls-shuttering-fee-based-brokerage-accounts/>, and <https://www.planadviser.com/sec-wont-challenge-broker-registration-ruling/>

<sup>2</sup> The SEC estimates that over one million fee-based brokerage accounts, representing over \$300 billion, were affected. These accounts were either converted to advisory accounts or transitioned to traditional commission-based brokerage accounts. See <https://www.sec.gov/rules/final/2007/ia-2653.pdf>.

<sup>3</sup> A firm that registers with the SEC as a Registered Investment Adviser (RIA) is required to comply with the fiduciary standard and to provide an annual report called Form ADV. Employees of RIAs are called Investor Advisor Representatives and are required to pass qualifying examinations. Throughout the paper, I use the term “RIA” to refer to either RIA firms or their representatives. See <https://www.sec.gov/divisions/investment/advoverview.htm>. Suitability is governed by FINRA Rule 2111 and requires that a firm or associated person have a reasonable basis to believe a recommended transaction or investment strategy involving a security or securities is suitable for the customer. See <http://www.finra.org/industry/suitability>

<sup>4</sup> Among large RIAs, about 55% of dual registered firms are willing to accept clients with assets below \$100,000, compared to 9% of independent RIAs. I discussed this result with several industry participants who noted that independent RIAs are often willing to accept smaller clients on a case-by-case basis, sometimes charging hourly instead of asset-based fees. Industry participants also noted that many mid-sized and smaller independent RIAs are likely more willing to take smaller clients. Hence, my finding that just 9% of the largest independent RIAs accept retail clients may be seen as a lower bound.

<sup>5</sup> “Kitces to brokers: It’s time for an attitude adjustment,” March 1, 2019.

<https://www.financial-planning.com/news/broker-dealers-should-treat-financial-advice-as-a-value>

a customer establishes a brokerage or investment advisory account. This influence may create a risk that customers are placed in an inappropriate account type that increases revenue to the firm and may not provide a corresponding benefit to the customer.<sup>6</sup>

Against this regulatory backdrop, I present three findings. First, while the FPA ruling was initially hailed as a victory for independent RIAs, dual registrants were also victorious, based on their sizable AUM and revenue growth. Second, dual registrants do not seem to treat their retail fiduciary (RIA) clients differently than their retail brokerage clients. Fiduciary clients face the same conflicts as brokerage clients, including cross-selling of insurance products and affiliated mutual funds, revenue sharing payments from third party mutual fund families, and simultaneous management and sponsorship of wrap programs.<sup>7</sup> Retail fiduciary clients of dual registrants pay higher fees – without an increase in financial planning services – than either dual registrant brokerage clients or clients of independent RIAs. Dual registrants frequently violate regulatory standards. Finally, dual registrants invest fiduciary client assets in institutional share classes of the same revenue-sharing mutual fund portfolios they offer their brokerage clients. These portfolios consistently attract higher flows but underperform the mutual funds available to self-directed investors and independent RIA clients.

This paper focuses on small retail investors: those with less than \$100,000 in investible assets. In 2016, the median American family had \$23,500 in financial assets.<sup>8</sup> Over half the largest dual registrants require a minimum investment of under \$100,000, but most large independent RIAs require a far higher minimum. Hence, the typical American family seeking financial advice may encounter difficulty finding an independent RIA and must choose between a broker, a dual registered RIA, or managing his own portfolio. My study has important implications for millions of retail investors.<sup>9</sup>

Stoughton, Wu, and Zechner (2011) present a model of delegated portfolio management in which some advisers are independent. Others are not independent and receive kickbacks (commissions and revenue sharing) from mutual fund companies. Revenue sharing payments are discretionary payments from fund family profits that fund families pay to advisers. The authors predict that without

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<sup>6</sup> See <https://www.ria-compliance-consultants.com/2014/08/sec-examination-focus-on-investment-adviser-dual-registrants/>

<sup>7</sup> Mutual fund management companies (families) sometimes make revenue sharing (profit sharing) payments to advisers that sell their funds. These payments are in addition to commissions advisers receive and are at the discretion of the mutual fund family. Unlike commissions – which are paid directly from the mutual fund – revenue sharing payments are paid out of fund family profits. Revenue sharing payments can create a conflict of interest for advisers to sell funds from families that pay them relative to families that do not. Wrap programs are programs for which a client pays one asset-based fee for asset allocation and trading charges.

<sup>8</sup> Federal Reserve Board Survey of Consumer Finances. <https://www.federalreserve.gov/publications/files/scf17.pdf>

<sup>9</sup> As noted in footnote 4, my discussions with industry participants indicate that some independent RIAs accept smaller clients on a case by case basis. These industry participants also state that mid-sized independent RIAs are more likely to accept small clients. Still, if a retail client searching for an independent RIA were to read the same regulatory disclosures that I did, she would likely conclude that she is ineligible to invest with most of them.

revenue sharing, advisors will improve investor welfare since the elasticity of investor demand increases and fees decrease. However, when funds revenue share, investor welfare will worsen. My result that revenue sharing funds have worse performance and that revenue sharing advisers charge higher fees supports this prediction. Next, the model predicts that revenue sharing payments subsidize aggressive marketing by advisers, increasing the AUM of unsophisticated investors. My findings that revenues and AUM are highest for dual registrants receiving revenue sharing payments, and that dual registrants that accept revenue sharing are more likely to advise less sophisticated retail clients provide empirical support. Third, the model predicts that mutual funds heavily subsidized by portfolio managers, such as affiliated funds, will underperform other funds. My finding that affiliated funds underperform unaffiliated funds is consistent with this prediction. Finally, the model predicts that underperforming mutual funds will be distributed indirectly through advisers to unsophisticated clients, while outperforming funds will be distributed both directly (from fund families) and through advisers. My result that funds from broker sold fund families – even institutional share classes of these funds that do not charge distribution fees – underperform direct-sold funds, supports this prediction.<sup>10</sup>

Egan (2018) develops a model of the brokerage-client relationship in which brokers facilitate consumer search. He predicts that brokers will limit their offerings and sell low-quality high-commission products to unsophisticated clients. Because clients cannot observe all securities available, they purchase inferior products. He shows that retail investors buy convertible bonds that compensate their brokers twice the fees of identical bonds. While his model focuses on brokers, I show that the fiduciary divisions of dual registrants have similar conflicts, leading to limited product choice, cross-selling insurance and affiliated products, revenue sharing, higher fees, and inferior mutual fund product offerings relative to independent RIAs. Garleanu and Pedersen (2018) model investor decisions, noting that sophisticated investors incur search costs while unsophisticated investors do not. My results support their model and also find that in practice, due to high stated required minimum investments, small investors may find it harder to locate independent RIAs, frequently settling for conflicted advice from dual-registered firms. Finally, Charoenwong, Kwan, and Umar (2019) show that when the SEC shifted regulatory oversight of mid-sized fiduciary firms from the SEC to state regulators experience a 30-40% increase in complaints. Consistent with my findings, the increases are highest in areas with less educated investors, among individuals with a history of misconduct, and among dual registrants.

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<sup>10</sup>This result is consistent with prior work showing that broker conflicts harm clients because brokers sell inferior products like load-bearing mutual funds (see Bergstresser, Chalmers, and Tufano (2009), Evans, Christofferson, and Musto (2013), and del Guercio and Reuter (2014)).

My work relates to other literature on the role of fiduciaries and brokers. Hoechle, Ruenzi, Schaub, and Schmid (2018) who find that advised clients of a large retail bank suffer relative to unadvised clients since their fiduciary advisers appear to put employer interests first. Gurun, Stoffman, and Yonker (2018) find that when a regulatory change that relaxed non-compete agreements was enacted, misconduct among fiduciary advisers increased and firing for misconduct decreased. Most research finds that brokers have conflicts and that brokerage clients overpay and underperform: see Foerster, Linnainmaa, Melzer, and Previtero (2017), Chalmers and Reuter (2015), Anagol, Cole, and Sarkar (2013), Hackethal, Haliassos, and Jappelli (2012), and Hackethal, Inderst, and Meyer (2012). By contrast, Von Guadecker (2015) finds that households that use financial advisers have better diversified portfolios than those that do not.

My paper also comports with prior work on affiliated mutual funds. Christofferson, Evans, and Musto (2013) find that fund flows are less sensitive to past performance when mutual funds are distributed through an affiliated sales force. Ferreira, Matos, and Pires (2018) show that bank-affiliated mutual funds underperform by nearly 1% annually, and that this underperformance relates to conflicts of interest. Pool, Sialm, and Stefanescu (2016) find that mutual fund families acting as service providers in 401(k) plans display favoritism toward their own affiliated but underperforming funds. Finally, Hao and Yan (2012) show that investment bank affiliated mutual funds underperform, noting that these funds hold disproportionately large amounts of their IPO and SEO clients.

Last, my results complement prior work on regulator discipline and adviser fraud. Dimmock and Gerken (2012) examine a sample of RIAs and find that being a dual-registered RIA is a strong predictor of subsequent fraud. Egan, Matvos, and Seru (2019) study broker misconduct at the employee level. They find that dual-registered advisers are 50% more likely to commit misconduct than standalone brokers. Further, among dual-registered firms, those that advise individual more often engage in misconduct, and firms advising individual clients more often hire advisers with misconduct records, consistent these firms taking advantage of less sophisticated investors.

## **2. Business environment for dual registered investment advisers**

In this section, I examine how the surprise 2007 FPA lawsuit outcome impacted the business environment for dual registered investment advisers. I begin with a short history of the regulatory environment for financial advisers.

### **2.1. Regulatory environment for financial advisers<sup>11</sup>**

Registered investment advisers are governed by the Investment Advisers Act of 1940 (the Act).

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<sup>11</sup> Much of the detail in this section relies on Schoeff Jr., Mark, (2016).

Under Section 206 of the Act, departure from the fiduciary standard constitutes fraud upon clients. By contrast, brokers must comply with a suitability standard. FINRA Rule 2111 governs suitability, requiring that a firm or associated person have a reasonable basis to believe a recommended transaction or investment strategy involving a security or securities is suitable for the customer. In *SEC vs. Capital Gains Research Bureau* (1963), the Supreme Court ruled that the intent of the Act was to “eliminate, or at least expose, all conflicts of interest.” The language from this ruling became the basis for describing the fiduciary standard.

In the early 1990s, Merrill Lynch and other brokerage firms began charging annual asset-based fees – instead of transaction-based commissions – in some brokerage accounts. Historically, asset-based fees were the sole province of registered investment advisers. In 1995, the SEC commissioned the Committee on Compensation Practices, led by Merrill Lynch. The committee’s report argued that fee-based accounts would likely eliminate or greatly minimize conflicts of interest. Hence, in 1999 the SEC proposed a rule exempting fee-based accounts of brokers from the fiduciary duty implied by the Act, as long as any advice they gave was “incidental” to the brokerage services they provided. In this proposed rule, the SEC cited the 1995 report, arguing that asset-based fees were similar to amortized commissions. The 1999 rule was formally entitled *Certain Broker Dealers Deemed Not to be Investment Advisers* and was informally known as the Merrill Lynch Rule.

In 2004, the Financial Planning Association (FPA) filed a lawsuit against the SEC, stating that the Merrill Lynch Rule blurred the line separating brokers from fiduciaries. Despite this pending lawsuit, the Merrill Lynch Rule became law in 2005, formalizing a fifteen-year long practice. In 2007, the Financial Planning Association unexpectedly won their lawsuit. Post-ruling, brokers wishing to charge asset-based fees must register with the SEC and act as fiduciaries. As described earlier, this victory took the industry by surprise and led many brokerage firms to transfer their fee-based accounts to the RIA divisions of their firms. The SEC estimated that immediately after the ruling, dual registrants moved over \$300 billion of assets from brokerage fee-based accounts to RIA fee-based accounts.

In 2009, the Treasury Department proposed that the SEC establish a fiduciary duty for brokers, and in 2010, the Dodd-Frank Act permitted the SEC to pursue this proposal. Separately, near the end of 2010, the Department of Labor (DOL) released an initial (fiduciary) rule that attempted to reduce conflicts of interests for investment advisers in retirement accounts, but withdrew the rule quickly in the face of industry complaints. In 2013, the SEC issued a request for comment on the concept of a fiduciary rule, and in 2015, President Obama endorsed a major overhaul of the initial DOL fiduciary rule. The DOL re-proposed the rule in 2015, with a final version in 2016, and an implementation date of January 2018. In February 2017, President Trump ordered the DOL to review the rule, pushing the

implementation date to January 2019. In March 2018, the Fifth Circuit Court of Appeals vacated the rule, confirming this ruling on June 21, 2018. The SEC is currently working on a proposal called Regulation Best Interest in an attempt to impose a more stringent standard on brokers and in May 2019, the DOL announced reconsideration of the fiduciary rule.

## **2.2 Financial impact of 2007 FPA win on dual registrants**

Figure 1 shows that regulatory assets under management (AUM) for dual-registrants grew from \$2.5 to \$6.3 trillion from 2003 to 2016, representing about 81% of all regulatory AUM, while independent RIA AUM grew from \$200 billion to \$1.4 trillion.<sup>12</sup> The source for this data is the SEC's Investment Adviser Public Disclosure (IAPD) database, which includes firms regulated by the SEC as Registered Investment Advisers (RIAs).<sup>13</sup> Figure 1 also presents AUM for the largest 75 dual registrants each year, which comprise 84% of all dual-registrant AUM in 2016.<sup>14</sup> Among dual registrants, AUM growth among large firms has significantly outpaced growth at remaining firms.

Fee-based revenue growth closely tracks fee-based asset growth among dual registrants. *Financial Planning* magazine's annual survey of the top 50 independent broker dealers indicates that fee-based revenues grew from \$3.5 billion to \$11 billion between 2007 and 2016.<sup>15</sup> Figure 2 presents these data and shows that fee-based revenues rose from about 27% of total revenues in 2007 to about 50% in 2016. Taken together, the strong growth in RIA assets under management and the sizable change in revenue composition indicate that dual registrants accelerated their shift from brokerage accounts to advisory accounts following the 2007 ruling. While advisory assets and revenues grew dramatically, this growth did not come at the expense of their brokerage businesses. Rather, dual-registered firms responded to the 2007 ruling by modestly growing their brokerage businesses and greatly expanding their RIA businesses.

## **3. Do dual registrants treat their fiduciary clients differently than their brokerage clients?**

### **3.1. Data**

Data comes from Form ADV, Parts 1 and 2. Part 1 data is available online from the SEC beginning in 2006, supplemented with 2003-2005 data collected from a previous FOIA request.<sup>16</sup> Advisers must update Form ADV yearly, providing information about a firm's advisory business,

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<sup>12</sup> I classify firms as dual registrants if they have an affiliated broker-dealer or if they have a related party that is a broker dealer. I classify firms as independent RIAs if they do not have an affiliated or related party broker dealer and if they employ no registered representatives (brokers). I drop mutual funds, hedge funds, and automated (robo) advisers from the sample.

<sup>13</sup> See <http://www.adviserinfo.sec.gov>. The SEC makes historical data from June 2006-present for most of the Form ADV Part 1 data points at <https://www.sec.gov/help/foiadocsinvafoiahtm.html>. Data from 2003-2006 was obtained via a FOIA request by Scott Yonker. I think Scott for allowing me access to this data.

<sup>14</sup> If a firm ever appears in the top 75 firms in any year, it is included in this figure for all years 2003-2016.

<sup>15</sup> <https://www.financial-planning.com/news/independent-broker-dealers-had-good-2017-after-slump-fp50>

<sup>16</sup> See footnote 13.

owners, clients, assets, and disciplinary actions. The initial dataset covers 26,809 unique RIAs. Dropping mutual fund and hedge fund advisers, retirement consultants, automated (robo) advisers, and third party asset managers leaves a sample of 6,866 unique RIAs. Based on their answers to questions 6(a)(1): “You are actively engaged in business as a broker-dealer?” and 7(a)(1): “You have a related party that is a broker-dealer, municipal securities dealer, or government securities broker or dealer?”, I classify 2,484 as dual registrants because they have an affiliated broker or a related party broker. The remaining 4,382 are independent RIAs: they do not have an affiliated or related party broker-dealer nor do they employ registered representatives.<sup>17</sup>

I hand-collect additional data from Form ADV Part 2. Since 2011, RIAs must deliver Form ADV Part 2 (also known as a brochure) to clients and potential clients. The SEC requests the brochure be in a narrative format in plain English and include the principal owner of the business, the services provided, a description of compensation including a fee schedule, whether advisers receive commissions in addition to advisory fees, whether the firm receives performance-based fees, types of clients and minimum account sizes, methods of analysis for selecting investments, disciplinary actions in the past 10 years, other affiliations of advisers, participation in client transactions, brokerage practices, client referrals, and custody information.

The SEC provides each firm’s most recently filed Form ADV Part 2 on the Investment Adviser Public Disclosure (IAPD) website at <https://adviserinfo.sec.gov/>.<sup>18</sup> Because I hand collect these data, I limit the Form ADV Part 2 sample to firms in the top 75 dual-registered or top 75 independent RIAs at any point during the 2003-2016 period (hereafter, the “Top 75” sample). There are 94 dual registrants that were in the top 75 at any point and 149 independent RIAs. This sub-sample covers the bulk of assets under management, with 74% of dual-registrant AUM and 51% of independent RIA AUM.

Table 1 Panel A presents summary statistics using ADV Part 1 data for the full sample. Appendix 1 contains descriptions of all variables. The table reports both means and medians calculated across firms by year and then averaged across years, and also presents t-tests for differences in means.

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<sup>17</sup> There are 1,658 firms that do not have an affiliated or related party broker dealer but do employ at least one registered representative (also known as a broker). This information comes from Form ADV question 5(b)(2): “Approximately how many of the *employees* reported in 5.A. are registered representatives of a broker-dealer?” I drop these firms from the sample because it is not clear how to classify them. On one hand, the registered representative may still be acting as a broker for some clients. On the other hand, the registered representative may have retained his brokerage license although he no longer accepts brokerage clients.

<sup>18</sup> My Part 2 analysis uses the most recent brochures since the SEC does not make historical brochures publicly available. I argue that the recent brochures are likely sufficient since the brochures have only been required since 2011, and because the main data I gather relates to: a) revenue sharing, which is not likely to change much over time based on my review of historical mutual fund prospectuses which often list the brokers with whom they revenue share, b) fees, which might actually decrease over time (in several brochures, firms noted that they had reduced their maximum fee in the prior year, with no firms noting an increase in fees), and c) disciplinary actions, for which Form ADV Part 2 provides ten years of historical data. To the extent that revenue sharing arrangements and fees change over time, my results in this area should be interpreted with this caveat in mind.



The average (median) AUM of a dual registrant is about \$4.5 billion (\$205 million), compared to an independent RIA with an average (median) of \$369 million (\$132 million). Following this pattern, dual registrants average nearly 9,800 advisory clients while independent RIAs have about 650, with lower medians of 731 and 406, respectively. The above differences in means are highly statistically significant. Turning to client composition, about 61% of dual registrant clients are individuals not classified as high net worth clients, compared to 57% for independent RIAs, a difference that is statistically but not economically significant.

The average dual registrant has 363 employees, of which 194 are investment advisory representatives (IARs) and 253 are registered representatives. By contrast, the average independent RIA has 9 total employees, of which 5 are IARs. IARs are fiduciaries and represent the RIA side of the business while registered representatives are non-fiduciary brokers. These differences in employee counts are statistically significant. The average number of clients per IAR is 135 for dual registrants and 142 for independent RIAs; this difference is not significant.

Table 1 Panel B presents similar statistics for the Top 75 sample. The means for dual registrants' AUM, clients, and employees are an order of magnitude higher than the average dual registrant in Panel A, with smaller differences for independent RIAs. Both types of firms serve a high proportion of individual clients and serve a similar number of clients per adviser.

Table 1 Panel C presents hand-collected data from Form ADV Part 2 for the Top 75 sample. Defining retail clients as those with less than \$100,000 to invest, about 55% of dual registrants accept retail clients compared with just 9% of independent RIAs. This variable is correlated with the "percent of individual clients" variable from ADV Part 1, but more precisely measures whether the adviser accepts small retail clients. Based on the differences in the two variables, the "percent of individual clients" is a poor proxy for "accepts retail clients" for independent RIAs. This disparity occurs because individuals that are not formally defined as having "high net worth" are still subject to high minimum investments at most independent RIAs. Because I wish to understand how dual registrants serve retail clients, most analyses use the "accepts retail clients" variable. In the next several sections, I use these data to examine aspects of the fiduciary-client relationship, including conflicts of interest, fees, disciplinary action, and asset selection.

### **3.2. Conflicts of Interest**

This section explores the first aspect of the client-fiduciary relationship: conflicts of interest. Prior literature indicates that brokers frequently have conflicts when recommending investments to clients and that these conflicts result in worse outcomes for brokerage clients. I perform a similar

analysis for RIAs. Ideally, an RIA held to the fiduciary standard of care would have fewer conflicts of interest than a broker held to the lower suitability standard.

### **3.2.1. Insurance product cross sales**

The first conflict variable relates to the likelihood that advisers cross-sell insurance products to RIA clients, measured in two ways. The first is a dummy variable set to one if the firm has an affiliated or related party insurance company. The second is the proportion of employees that are also licensed insurance agents. Table 1 Panel A shows that dual registrants have a higher proportion of IARs licensed to sell insurance (77% vs 23% for independent RIAs), and that dual registrants are more likely to have an affiliated or related party insurance company (31% versus 7%, respectively).

Table 2 presents Logit and OLS regressions in which the dependent variable is a dummy set to one if the firm has an affiliated or related party insurance company (Column (1)) or the proportion of employee insurance agents (Columns (2) and (3)). The Logit models present odds ratios. An odds ratio for a dummy variable measures the odds of the dummy variable being one divided by the odds of the dummy variable being zero. Odds ratio cannot be negative. An odds ratio of one indicates equal odds for the two groups; an odds ratio less than one indicates that the group coded as zero has higher odds than the group coded as one; an odds ratio more than one indicates that the group coded as one has higher odds than the group coded as zero. Hence,  $(1 - \text{odds ratio})$  represents the percentage difference between the odds of the groups. In all columns, standard errors are clustered by year. The key independent variable is a dummy set to one if the firm is a dual-registrant and zero if the firm is an independent RIA. Controls include the log of size winsorized at the 1% level, the estimated proportion of individual clients, a dummy variable set to one if the firm offers financial planning services, the proportion of clients receiving financial planning services, and year indicator variables.<sup>19</sup>

Column (1) of Panel A shows that dual registrants are more likely than independent RIAs to have an affiliated or related party insurance agency. The odds ratio of 4.8 in Column (1) indicates that the odds for dual registrants having an insurance agency are 380% higher than the odds for independent RIAs. Columns (2) and (3) use the proportion of employees licensed to sell insurance as the dependent variable. This variable is available since 2011. The coefficient of 0.32 on the dual registrant dummy in Column (2) indicates that being a dual registrant is associated with a 0.32 higher proportion of employees licensed to sell insurance. Relative to the mean proportion of 0.40 reported in Table 1 Panel A, the difference is economically and statistically significant. The fixed effects regression in Column

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<sup>19</sup> Effectively, financial planning services are services beyond asset allocation and investment selection, and include cash flow planning, retirement planning, and estate planning. Many firms offer financial planning for a separate fee, but these data indicate that few clients take advantage of it.

(3) finds that the proportion of dual registrant employees licensed to sell insurance increases by about 5% faster per year than the proportion of independent RIA employees licensed to sell insurance.

Panel B uses the Top 75 sample. The regressions add a dummy variable set to one if the firm accepts retail clients, hand-collected from Form ADV Part 2. Column (1) shows that both dual registrants and firms with retail clients are more likely to have affiliated or related party insurance agencies. Column (2) interacts the dummy variables for “dual registrant” and “accepts retail clients.” The odds ratio on “dual registrant” indicates that the odds for dual registrants without retail clients having an insurance agency are about 600% higher than the odds for independent RIAs. The odds ratio on “accept retail clients” indicates that the odds for independent RIAs having an insurance agency are about 900% higher for those with retail clients than the odds for those without. Combining these two variables and the interaction variable, dual registrants with retail clients are more likely than independent RIAs without retail clients to have an affiliated insurance company. However, dual registrants with retail clients are not more likely than dual registrants without retail clients to have an affiliated insurance company (these two results are reported at the bottom of the table).

Column (3) shows that both dual registrants and firms with retail clients employ more insurance agents. Column (4) finds that the subset of dual registrants with retail clients drives this result, since each coefficient on the relevant dummy variables is insignificant, but the sum of the three coefficients is highly significant. Hence, dual registrants have worse insurance-related conflicts of interest than independent RIAs. These results are strongest for dual registrants with retail clients: this subset is more likely to offer insurance products than independent RIAs with or without retail clients.

### **3.2.2. Simultaneously sponsoring and managing wrap programs**

The second conflict is simultaneous sponsorship and management of wrap programs. The SEC describes a wrap program as follows: “A program under which any client is charged a specified fee or fees not based directly upon transactions in a client's account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions.”<sup>20</sup>

The portfolio manager of the wrap program manages the assets and the sponsor of the wrap program, for a portion of the fee, selects investment advisers. The SEC notes: “Because wrap fee programs bundle services into a single fee, total fees to a client...may be more or less than obtaining such services separately.”<sup>21</sup> Further, despite its name, a wrap program does not cover all fees; for example, if the program invests in mutual funds, clients pay operating expenses of the separately. Also,

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<sup>20</sup> <https://www.law.cornell.edu/cfr/text/17/275.204-3#>

<sup>21</sup> [https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib\\_wrapfeeprograms](https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_wrapfeeprograms).

the adviser may choose to execute trades through a broker not covered by the wrap fee (called “trading away”), leading to additional transaction fees. When the same firm manages and sponsors a wrap program, a potential conflict exists because the firm earns higher total revenue when the adviser chooses a firm-managed wrap program. The SEC has disciplined several firms for violations related to wrap programs.<sup>22</sup> Most disciplinary actions target firms charging excessive fees.

Table 3 presents Logit regressions in which the independent variable is a dummy set to one if the firm simultaneously manages and sponsors a wrap program. Column (1) includes all firms and Columns (2) and (3) repeat these regressions for the Top 75 sample. Independent variables are as in Table 2. The Logit model in Column (1) finds that the the odds for dual registrants simultaneously managing and sponsoring wrap programs are about 380% higher than for independent RIAs.

Column (2) shows that dual registrants and firms with retail clients are most likely to simultaneously manage and sponsor wrap programs. Column (3) indicates that the odds for dual registrants without retail clients to simultaneously manage and sponsor wrap programs are about 720% higher than for independent RIAs. Among independent RIAs, accepting retail clients does not change the likelihood that the firm will simultaneously manage and sponsor a wrap program. Based on the interaction effects reported at the bottom of the table, dual registrants with retail clients are more likely to simultaneously manage and sponsor a wrap program than independent RIAs without retail clients. Further, dual registrants with retail clients are more likely to simultaneously manage and sponsor a wrap program than dual registrants without retail clients. These results provide strong evidence that dual registrants have higher conflicts of interest relating to wrap programs than independent RIAs. Moreover, dual registrants that accept retail clients have the highest conflicts.

### **3.2.3. Revenue sharing payments from third party mutual fund families**

This section examines revenue sharing payments from third party mutual fund families. As noted by Morgan Stanley “Revenue-sharing payments are generally paid out of the fund’s investment adviser, distributor or other fund affiliate’s revenues or profits and not from the fund’s assets. However, fund affiliate revenues or profits may, in part, be derived from fees earned for services provided to and paid for by the fund.”<sup>23</sup> Revenue sharing payments to fund distributors (brokers or RIAs) come from profits of fund families and not directly from mutual fund assets. They may be paid in lieu of, or in addition to, distribution fees (12b-1 fees) paid directly from mutual fund assets.

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<sup>22</sup> [https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib\\_wrapfeeprograms](https://www.sec.gov/oiea/investor-alerts-and-bulletins/ib_wrapfeeprograms).

<sup>23</sup> See [https://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/8962360-WM-Revenue-Sharing-Fund-Families\\_m3f\\_L.pdf](https://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/8962360-WM-Revenue-Sharing-Fund-Families_m3f_L.pdf)

Mutual fund families share revenue with RIAs for many reasons, including: 1) sponsoring meetings and conferences and reimbursing training, entertainment, travel, and other adviser benefits, 2) allowing the family's funds to be included on a firm's "preferred" list of funds, and 3) purchasing brokerage firm sales data analytics.<sup>24</sup> As Morgan Stanley discloses in Form ADV Part 2:

These facts [referring to revenue sharing arrangements] present a conflict of interest for Morgan Stanley and our Financial Advisors to the extent they lead us to focus on funds from those fund families that commit significant financial and staffing resources to promotional and educational activities instead of on funds from fund families that do not purchase sales data analytics or do not commit similar resources to these activities.<sup>25</sup>

Historically, revenue sharing payments have allowed mutual fund families that distribute funds through brokers to reward top brokers and encourage future sales. Brokers and representatives from these fund families tend to have long-standing personal and professional relationships. Based on their Form ADV disclosures, as these brokers enter the fee-based RIA business as dual registrants, they continue to receive revenue sharing from fund families. By contrast, independent RIAs almost never engage in revenue sharing arrangements. Only one independent RIA (within the sample of 149 large independent RIAs) engaged in revenue sharing during the sample period.

Data on revenue sharing is notoriously difficult to obtain. Mutual fund families sometimes disclose these arrangements in fund prospectuses, but the data are not captured in standard mutual fund databases. In prospectuses, fund families do not always report the names of firms they share with, and rarely report dollar amounts. On the RIA side, dual registrants disclose some information about revenue sharing arrangements in Form ADV Part 2. However, disclosure content varies. Further, the SEC has required Form ADV Part 2 only since 2011 and the form is written in a narrative format, making it more challenging to standardize these data. Given these caveats, I am one of few academics to directly examine revenue sharing. Christofferson, Evans, and Musto (2013) find that revenue sharing increases fund flows but does not appear to impact fund performance. However, these authors focus only on revenue sharing that is revealed because the fund family has a defensive 12b-1 plan, and therefore, do not capture all occurrences of revenue sharing.

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<sup>24</sup> The term "revenue sharing" is often used broadly to describe the fees that mutual fund families pay to have funds listed on brokerage firm mutual fund sales platforms. Because all mutual funds listed on platforms pay some sort of fee (which are also referred to as omnibus fees, administrative service fees, or pejoratively, fees for "shelf space"), I do not consider these listing fees as revenue sharing in my analysis. Rather, I focus on revenue-sharing payments in excess of the listing fees, such as fees paid for data analytics, access to advisers via education, sales and marketing trips and conferences, or placement on preferred fund lists.

<sup>25</sup> See [https://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/8962360-WM-Revenue-Sharing-Fund-Families\\_m3f\\_L.pdf](https://www.morganstanley.com/assets/pdfs/wealth-management-disclosures/8962360-WM-Revenue-Sharing-Fund-Families_m3f_L.pdf)

Since at least 2003, the SEC has expressed concern about conflicts of interest that arise from revenue sharing. In 2003, the SEC fined Morgan Stanley \$50 million to settle allegations that its brokers did not inform customers about revenue-sharing deals. Morgan Stanley was also required to disclose its revenue-sharing practices on its website. Edward Jones was fined \$75 million in 2004 for similar violations. (Johannes and Hechinger (2004)). Despite these large settlements, there have been several recent high-profile disciplinary actions related to revenue sharing (for example, Geneos Wealth Management (\$2.2 million in 2018) and Voya Financial Advisors (\$3 million in 2017)), indicating that RIAs continue to engage in revenue sharing and do not always disclose it properly.

I collect revenue sharing data from Form ADV Part 2 for the top 75 sample. Table 4 presents Logit regressions. In Columns (1) and (2) the dependent variable is a dummy set to one if the firm reports that it engages in revenue sharing related to sponsoring meetings or educational events, purchasing brokerage firm sales data, or being listed as a preferred fund provider, and in Columns (3) and (4) the dependent variable is a dummy set to one if the firm segregates funds into tiers, with revenue sharing funds in the top tier and non-revenue sharing funds in a lower tier. Since firms do not have to disclose the latter data, this variable represents a lower bound. Because these variables are each measured once over the life of the firm, regressions do not include time dummies. The odds ratio for the dual registrant dummy in Column (1) indicates that the odds that dual-registrants without retail clients will engage in revenue sharing are about 3700% higher than the odds for independent RIAs. This finding is consistent with the idea that long-standing relationships between mutual fund families and brokers have survived the transformation of brokers to RIAs. Similarly, the odds ratio for “accepts retail clients” is 12.3, indicating that the odds for firms that accept retail clients to revenue share are about 1130% higher than the odds of revenue sharing for firms that do not accept retail clients.

Column (2) includes an interaction of the two dummy variables, finding that the positive coefficient on the retail dummy variable is driven entirely by dual registrants that accept retail clients. The odds ratio for the interaction variable is extremely large because it represents a very small sample: the 1% of independent RIAs that engage in revenue sharing interacted with the 9% of independent RIAs that accept retail clients. Results are similar for whether the firm categorizes funds into tiers, as shown in Columns (3) and (4). Overall, these results indicate that dual registrants are far more likely to engage in revenue sharing, especially dual registrants that accept retail clients.

In addition to reviewing Form ADV Part 2, I also review additional revenue-sharing disclosures from dual registrants if available on firm websites. Of the 94 dual registrants for which I review Form ADV Part 2, 56 report receiving revenue sharing payments from fund families. Of these, 35 dual registrants also name these fund families. Appendix B lists the fund families mentioned by at least five

dual registrants.<sup>26</sup> This review, along with the Table 4 results, yields two key stylized facts. First, every single fund family in Appendix B has historically distributed its funds through brokers. Hence, when brokerage firms reinvented themselves as RIAs after the 2007 FPA lawsuit, these fund families and dual-registrants continued their long-standing relationships. Second, dual registrants continue offering funds from these families to RIA clients. As an article from 2014 states:

Broker-dealers have long been moving in the direction of offering more institutional share classes in more fee-based accounts, “converting” assets in funds that assess a load or include annual distribution and marketing fees. To move to a lower-cost share class for any manager you’re already using to the end investor is just intelligent,” said Michael S. Falk, partner at Focus Consulting Group.<sup>27</sup>

#### **3.2.4. Affiliated mutual funds**

The final conflict of interest involves selling mutual funds managed by a corporate affiliate like a bank, investment adviser, or insurance company. RIAs face a conflict for these funds since the parent firm earns both management and advisory fees. I perform this analysis on the Top 75 subsample. Column (1) of Table 5 reports results for Logit models in which the dependent variable is set to one if the firm has affiliated mutual funds. The odds ratio of 4.0 for the dual registrant dummy variable indicates that the odds for dual registrants simultaneously managing and sponsoring a wrap program are about 300% higher than for independent RIAs. This result is consistent with summary statistics in Table 1 Panel B. The odds ratio for the retail dummy variable is insignificant. The regression in Column (2) shows that the odds that dual registrants without retail clients will have affiliated funds are about 250% higher than for independent RIAs. Considering the interaction of the dual registrant and retail dummies, the odds that dual registrants with retail clients will have affiliated funds are 245% higher than for independent RIAs. Columns (3) and (4) present regressions in which the dependent variable is set to one if the firm performs less rigorous due diligence on affiliated funds. These results, which include only firms with affiliated funds, are similar to the Column (1) and (2) regressions: dual registrants, with and without retail clients, perform less rigorous due diligence on affiliated funds.

Overall, dual registrants have far more conflicts than independent RIAs. First, dual registrants cross-sell insurance products to fiduciary clients. Second, they simultaneously manage and sponsor wrap fee programs. Third, they engage in revenue sharing arrangements with the same broker sold

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<sup>26</sup> Several of the largest dual registrants provide rather long lists of revenue sharing funds, but separately categorize the families from which they receive the most revenue sharing. For these dual registrants, I select these “highest revenue sharing” fund families.

<sup>27</sup> <https://www.investmentnews.com/article/20141121/FREE/141129983/brokers-push-to-fee-based-comp-slams-higher-cost-funds>

fund families they sell their brokerage clients, and finally, they sell affiliated funds and perform less rigorous due diligence on these funds. Results are strongest for dual registrants that serve retail clients, consistent with prior theoretical models predicting that advisers will exploit unsophisticated clients.

### 3.3. Fees

Table 1 Panel C shows that dual registrants charge higher fees to both high net worth and retail clients. High net worth clients of dual registrants pay 1.4% of assets compared to 1% of assets for independent RIA clients. This difference is larger for retail clients: dual registrants serving these clients charge 2.2% of assets, compared to 1.2% of assets charged by independent RIAs.<sup>28</sup> However, dual registrants are more likely to serve retail clients: 55% of the top 75 dual registrants permit retail clients compared to only 9% of independent RIAs. Because independent RIAs manage fewer assets, a retail client's ability to locate an independent RIA willing to accept him may be limited. Further, advisory clients of dual registrants do not appear to receive additional services for these higher fees: only 3% of dual registrant clients receive additional financial planning, similar to 5% of independent RIA clients.

Table 6 performs regression analyses of fees. In Columns (1) and (2) the dependent variable is fee as a percent of assets for clients with over \$1 million in assets. In Column (1) the coefficient on "dual registrant" indicates that fees for these clients are about 11 basis points higher for dual registrants, relative to an average fee of 114 basis points from Table 1 Panel C. Firms accepting retail clients charge fees about 35 basis points higher. Column (2) interacts the two variables. The coefficient on each variable is insignificant, indicating no fee differences between dual registrants without retail clients and independent RIAs without retail clients nor between independent RIAs with retail clients and independent RIAs without retail clients. However, the sums of these variables indicate that fees for large clients of dual registrants with retail clients are 50 basis points higher than for independent RIAs without retail clients, and that fees for dual registrants with retail clients are 49 basis points higher than for dual registrants without retail clients. Column (3) presents regressions for firms that serve retail clients. The dependent variable is the fee charged on clients with assets less than \$100,000. The coefficient is 0.89; fees for retail clients are 89 basis points higher for dual registrants than independent RIAs, a 75% difference compared to the average fee of 1.19% for independent RIAs. Results of this section indicate that dual registered firms that accept retail clients appear to charge higher fees to both wealthy and retail clients relative to independent RIAs.

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<sup>28</sup> When sharing this paper with industry participants, several noted that many RIAs charge lower fees than they disclose in Form ADV Part 2. However, it is not at all clear whether this caveat applies to small retail investors. Further, I can only observe the fees that the firms disclose. Even if most investors do not pay the stated fees, there is no systematic reason to believe that the difference in fee disclosure between dual registrants and independent RIAs should be systematically biased. Still, given these caveats, the fees I disclose should be considered an upper bound on the advisory fees that clients actually pay.



### 3.4 Disciplinary actions

This section investigates whether dual registrants face more regulatory disciplinary actions than independent RIAs. Focusing on the largest 75 firms in each category in Table 1 Panel B, 10% of dual registrants employ a convicted felon compared to 0% of independent RIAs. Dual registrants are more likely to employ an adviser that has: made a false statement to the SEC (21% for dual registrants compared to 1% for independent RIAs), violated SEC statutes (38% compared to 1%), had an SEC order against them (55% compared to 2%), or had a court enjoin an action (14% compared to 0.3%).

Table 1 Panel C provides data obtained from Form ADV Part 2, where investment advisers must report their last 10 years of regulatory disciplinary actions. Over half the dual registrants report at least one disciplinary action; among these firms the average fine is \$60 million dollars in total over 10 years and the average number of disciplinary actions is one per year. Most actions relate to the brokerage side of the business, including misleading investors, overcharging clients for mutual fund or variable annuity products, and improper data reporting or other internal control violations. However, substantial violations occur on the RIA side of the business. Specifically, 19% of dual-registrants report that their investment adviser representatives (IARs) misled clients, 15% report a conflict of interest, 13% cite lack of proper supervision of IARs, 10% overcharged 12b-1 fees on mutual funds, and 6% overcharged advisory fees. By contrast, among the 75 largest independent RIAs, there is a single disciplinary event (misleading investors) for a single firm. Fees for IAR related dual-registrant incidents average about \$7.7 million in total over the 10-year period, with a single fee of \$20,000 for one independent RIA over this period.

Table 7 performs Logit regressions. Panel A includes all firms. Dependent variables include dummies for convicted felon, convicted of misdemeanor, false statement to SEC, violate SEC statutes, SEC order against, and court enjoined. Control variables are the same as in Table 3. All regressions indicate a significantly higher likelihood of each disciplinary action for dual registered firms, ranging from false statements to the SEC for which dual registered firms have a 180% higher odds ratio than independent RIAs; to misdemeanors, for which dual registrants have a 1680% higher odds ratio than independent RIAs. These actions are highly correlated with fund size, with the proportion of individual clients, and whether the firm offers financial planning.

Panel B includes Top 75 firms and also includes variables for whether the firm serves retail clients. Results in Panel B show that being a dual registrant is associated with an increased likelihood of having committed all types of disciplinary actions. For “felon” this regression cannot be estimated because none of the Top 75 independent RIA employees have a felony conviction. The interaction regressions also provide strong evidence that being a dual registrant that accepts retail clients is

associated with a significantly higher likelihood of having a disciplinary action, relative to independent RIAs and to dual registrants that do not accept retail clients. I do not perform regressions for the detailed actions described above from Table 1 Panel C, because only one independent RIA has been subject to any of these actions, making a regression analysis impossible.

Clearly, these results indicate stark differences between the likelihood of a disciplinary action for dual registrants compared to independent RIAs, especially for dual registrants that serve retail clients. A fair criticism of this analysis is that dual-registered advisers are subject to more regulatory oversight than are independent RIAs because dual-registered advisers are regulated by both FINRA and the SEC. The SEC has also recently stated that they will increase their focus on dual registrants. Further, dual registrants manage more assets and have more employees, thereby increasing the chance of fraud or disciplinary action for one or more employees.

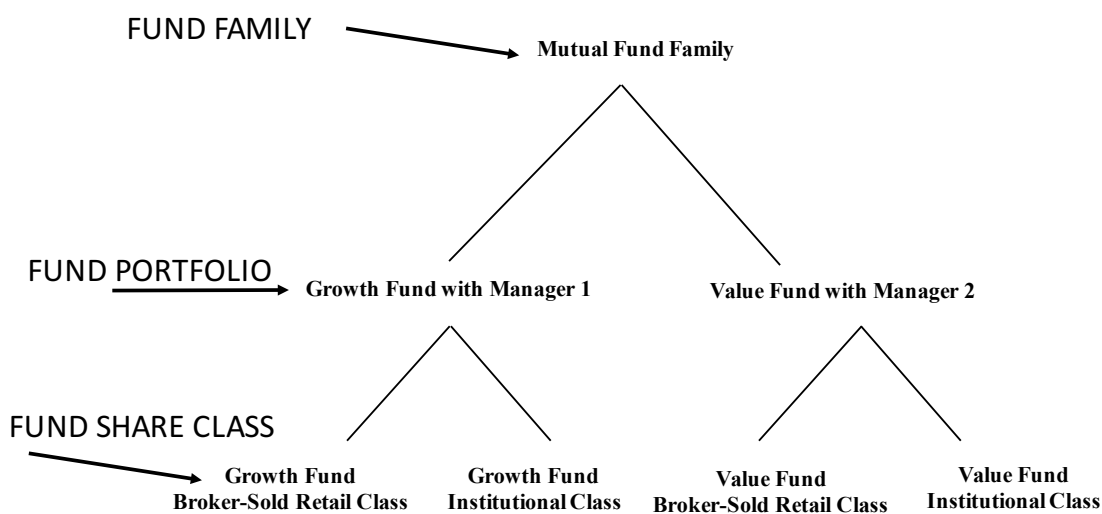
While these critiques are valid, they likely do not fully explain the differences I observe. First, the regressions control for firm size. Tests that control for the number of employees produce nearly identical results. Second, employers choose to hire employees with past felonies or misdemeanors, and this decision is separate from future disciplinary actions. Third, Table 1 Panel C shows that dual registrants are more likely to be disciplined for RIA-related violations (not just brokerage violations) than independent RIAs. Fourth, this critique does not explain differences between dual registrants that accept retail investors and those that do not. Finally, my findings are consistent with Dimmock and Gerken (2012) and Egan, Matvos, and Seru (2019). The results of this section indicate a higher incidence of disciplinary actions against dual registrants, especially those that accept retail investors.

### **3.5 Asset Selection**

Because RIA clients pay asset-based fees rather than commissions, a fiduciary's incentive to sell high-commission products should be muted. However, fee structure cannot mitigate every conflict. One conflict that disproportionately affects dual-registered fiduciaries is revenue sharing agreements with mutual fund families. Based on dual registrants' Form ADV Part 2 disclosures, these arrangements frequently induce them to suggest certain institutional share classes, typically from the same fund families that they already offer their brokerage clients. For example, a dual-registered adviser might sell the Class A share of the Oppenheimer Discovery Fund, which pays a 5.50% one-time commission, to brokerage clients, but offer the commission-free Class R5 share of this fund to fee-based RIA clients. These two share classes (A and R5) have different commission structures and eligibility requirements, but have the exact same underlying portfolio assets and manager. Figure 3 presents a stylized example of a typical mutual fund portfolio distribution structure. A mutual fund family (also known as a management company), offers two mutual fund portfolios (funds), each

distributed through two different channels (share classes). In the above example, Oppenheimer is the fund family, the Discovery Fund is the portfolio, and Classes A and R5 are the distribution channels/share classes.

**Figure 3: Stylized example of mutual fund distribution**



Classes A and R5 of the Oppenheimer Discovery Fund are two versions of the exact same fund portfolio. The only differences between the two classes are 1) distribution method and b) eligibility requirements. Brokers earn commissions selling Class A shares, which have a minimum investment of \$1,000 and are available to all investors. Class R5 shares are distributed in two ways. The first is directly from Oppenheimer to institutional investors. The second is via investment advisers to fee-based clients. Oppenheimer, like most broker sold mutual fund families, waives the Class R5 minimum requirement for fee-based advisers.<sup>29</sup> A similar structure applies to a fund family that mainly sells shares directly to the public, such as Vanguard. For example, Vanguard fund portfolios have a share class that is sold directly to the public (“Investor” shares) and a higher minimum class that is designed for institutions (“Institutional” shares). Vanguard clients do not pay brokerage commissions in either share class.

As discussed earlier, conflicts of interest can lead dual registrants to focus on funds from families that provide revenue sharing payments over those that do not. Because all the revenue-sharing families that dual-registrants most frequently name (listed in Appendix B) are broker-sold fund families, and because dual-registrants likely continue to offer the institutional share classes of mutual

<sup>29</sup> While Oppenheimer does not impose a minimum investment for Class R5, many fund families impose a minimum investment of \$1,000,000 for actual institutions that buy institutional class shares. Oppenheimer also offers Class R6, which has even lower fees, to clients of certain investment advisers who agree to minimum trading frequency. In my analysis, both classes are grouped together and categorized as “institutional.”

funds with which they are most familiar (even if these funds are not among the top revenue sharing families), I separately investigate the performance and flows of the subset of institutional share classes from broker-sold fund families. I use these performance data as an as an initial proxy for the investor welfare of dual registrant RIA clients. As a more direct proxy of performance, I examine whether performance among the institutional share classes of broker-sold fund families varies with the presence of revenue sharing, since dual registrants state an explicit preference for revenue sharing fund families.

#### **4. Dual registrants and investor welfare**

##### **4.1. Aggregate fund flows**

I begin by showing that significant capital flowed into institutional share classes in the wake of the 2007 FPA ruling. Preliminary share class level data is available from the CRSP Mutual Fund Database, but it is incomplete. Appendix C details my comprehensive review of these data to correctly classify each share class of each mutual fund portfolio into one of four standardized categories: “direct-sold retail” (a low minimum share class distributed directly from the fund family with no commission), “broker sold retail” (a low minimum share class distributed through a broker for a commission), “institutional” (a commission-free share class with restrictions on either minimum investment and investor/adviser eligibility; these classes may have a direct-sold or broker sold counterpart or be institutional-only), and “retirement-only” (a share class restricted to retirement plans; may have a direct-sold or broker sold counterpart or be a singleton share class). The sample includes only actively managed equity and balanced (equity and bond) funds. This process results in numerous reclassifications from the existing CRSP data, as discussed in Appendix C.

Using these data, I aggregate fund assets and cumulate fund flows at the share class level for 2003-2016 and plot these data in Figures 4 and 5, respectively. Figure 4 shows that while assets in the broker-sold and direct-sold share classes have flattened, assets in the institutional share class have grown. Figure 5 indicates that fund flows to all the classes grew through 2007, but after 2007, the broker sold share class suffered massive outflows while the institutional share class experienced inflows.

Institutional share classes of mutual funds are offered by three types of fund families: mostly broker-sold (like MFS), mostly direct-sold (like Vanguard), and institutional-only (like GMO). Figure 5 aggregates three types of families. Figure 6 presents a similar graph disaggregating the institutional share class into these three types of families: Institutional: Has broker sold counterpart, Institutional: Has direct-sold counterpart, and Institutional: Singleton. To be included in Figure 6, each broker sold share class and each direct-sold share class must also have an institutional share class available. This

figure shows that about 65% of institutional flows accrue to institutional share classes of portfolios that also have a broker sold share class, consistent with dual-registered brokers moving client assets out of commission-based brokerage accounts and into fee-based fiduciary accounts.

As final evidence that dual registrants moved clients from broker sold to institutional share classes of the same funds after 2007, I hand collect data from mutual fund prospectuses on eligibility restrictions for institutional share classes. I find that 64% of all institutional classes accept investment adviser clients. However, this value is 76% for institutional classes of broker sold funds, just 34% for institutional classes of direct sold funds, and 49% for singleton institutional classes. From the perspective of mutual fund families, it appears that after the 2007 ruling, many broker sold mutual fund families realized that their broker sol share class was in jeopardy, but saw an opportunity for new flows into institutional share classes by leveraging their long-standing relationships with dual registrants.

#### **4.2. Share class characteristics**

Table 8 presents summary statistics of mutual fund data, and Appendix 1 provides descriptions of key variables. Panel A Column 1 reports 5,468 separate fund portfolios in the sample, with average assets of \$613 million. Flows are about \$2.8 million per year and the age of the oldest share class is 10 years. Turnover ratio is 93%, and 67% are domestic equity, 11% are balanced, and 23% are foreign equity. These data are similar to recent studies such as Berk and van Binsbergen (2015).

Panel B compares share classes by distribution channel. Column 1 compares broker sold retail to direct sold retail and finds that broker sold share classes are smaller, with lower dollar flows but higher percent flows and expense ratios. Column 2 compares broker sold to institutional and finds that broker sold are larger, but have far lower dollar and percent flows. Further, broker sold are older, with higher expenses and turnover ratios, and are more likely to be either domestic or balanced funds rather than foreign equity funds. Column 3 compares direct sold retail to institutional and finds that direct sold retail are larger, with worse flows, higher age, higher expenses and turnover ratios, and are more likely to be either domestic or balanced style and less likely to be foreign equity style.

Panel C reports data for the institutional class, divided into three categories based on whether the fund portfolio also offers a broker sold class, a direct sold class, or neither (singleton). Comparing funds that also have a broker sold class to those that also have a direct sold class, those with a broker sold class are older with slightly lower expenses and are more likely to be balanced funds. However, the two classes are similar in age, size, and flows. Comparing institutional classes that also have a broker sold class to the singleton institutional class, those with a broker sold class are smaller but older, with higher flows and turnover, and are more likely to be the domestic or balanced styles and less likely to be the foreign equity style. Finally, comparing institutional classes of portfolios that also have

a direct sold class to singleton institutional portfolios, those that also have a direct sold class are smaller and younger with higher expenses and are more likely to be the domestic equity style.

#### 4.3 Flows and Performance

Despite adviser conflicts of interest, clients likely focus on after-fee performance. Hence, if institutional share classes of broker sold funds have good risk-adjusted performance, then these conflicts may matter less to clients. The next section examines the performance of this share class, with an emphasis on 1) the top revenue sharing fund families, and 2) dual registrant affiliated funds.

For performance, I calculate gross alpha, net alpha, and two other measures, following Berk and van Binsbergen (2015). These authors estimate a manager's skill as the value that his fund extracts from the markets (hereafter *gross value added*), calculated as the gross excess return over a benchmark (hereafter *gross alpha*) multiplied by assets under management.<sup>30</sup> They argue that because investors rationally allocate capital to good past performers, fund size is endogenously related to managerial skill: if investors are rational, the best managers should have the largest funds. Hence, while gross alpha – a return measure – is expected to deteriorate as funds grow larger, as long as gross alpha is not negative, gross value added will be positive and growing in fund size. Berk and van Binsbergen (2015) find that over the period 1977-2011, the average mutual fund has a statistically significant gross value added of about \$3.2 million per year, providing evidence for skill among fund managers.

Using a similar approach, I create a performance measure called *net value added*, calculated as a fund's excess net-of-fees return over a benchmark (hereafter "*net alpha*") multiplied by fund size. Net value added measures the dollar value of a fund manager's gross value added that is passed on to investors after fees. While Berk and van Binsbergen (2015) do not explicitly calculate net value added, they do calculate net alpha. Over their sample period, they find that net alpha for the average mutual fund is approximately zero. Similar to gross value added, net alpha must be positive for net value added to be positive. Net value added incorporates the endogenous impact that flows have on fund size and profitability. A large fund with a modest net alpha can still deliver significant net value added.

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<sup>30</sup> To estimate each fund's benchmark, I use an investment set comprised of 11 Vanguard index funds, including funds that hold non-U.S. stocks as in Berk and van Binsbergen (2015). Funds include: S&P 500 fund (VFINX), extended market index fund (VEXMX), small cap index (NAESX), European stock index (VEURX), Pacific Stock Index (VPACX), value index (VVIAX), Balanced index (VBINX), Emerging markets stock index (VEIEX), Mid-cap index (VIMSX), Small-cap growth index (VISGX), and Small cap value index (VISVX). I require 24 months of returns to estimate coefficients. This a benchmark that was fully investible and available to all mutual fund investors for the whole period. I regress each fund's return on Vanguard return, and use the beta coefficients to estimate benchmark returns each period. I subtract the benchmark return from the gross (net) fund return to calculate gross (net) alpha each month. Results using the Jensen (1968) single factor or the Carhart (1997) four factor models are statistically and economically similar and are reported in Table 11. Results using raw returns or the three factor Fama-French model are also similar and are available upon request.

Table 9 reports performance data. Column 1 aggregates fund share classes to the portfolio level. At this level, equally-weighted gross annual alpha is about 28 basis points per year, while value-weighted gross annual alpha is higher at 107 basis points. These results indicate that larger funds have higher returns, consistent with Berk and Green's (2004) theory that investor capital will flow to the largest funds. Equally-weighted net alpha is -99 basis points per year, while value-weighted net alpha is 8 basis points, consistent with differences in gross alpha. Annual gross value added at the portfolio level is \$5.76 million, slightly higher than the gross value added reported by Berk and van Binsbergen (2015). By contrast, net value added is -\$0.29 million per year, indicating that after expenses and taking fund size into consideration, the average fund does not add value.

Focusing on the distribution channel results in Column 2 to 5, equal and value weighted gross and net alphas are worse for broker sold share classes than for all other channels. Further, value weighted net alpha is negative for broker sold classes but positive for all other distribution channels. While gross value added for the broker sold channel is the second highest, at \$3.36 million, net value added is by far the lowest, at -\$1.87 million. The broker sold retail channel also has the distinction of being the only share class with negative net value added. Overall, broker sold share classes have the worst outcomes, while direct sold retail classes and institutional classes have the best outcomes.

Turning to Panel B, many differences between broker sold retail classes and other distribution channels in Columns 1-2 are both economically and statistically significant. By contrast, Column 3, which compares direct sold retail share classes to institutional share classes, indicates more modest differences. While direct sold retail share classes have better equal-weighted gross alphas than institutional share classes, there are no differences among value-weighted gross alphas, nor among equal or value weighted net alphas. Value-weighted net alphas are positive for both channels. Direct sold retail share classes have higher gross value added and net value added.

Panel C compares means for subsamples of the institutional share class. While all three categories have significantly positive gross alphas, both value and equal weighted, only institutional portfolios with a direct sold class and singleton institutional portfolios have significantly positive net alphas (value-weighted). Similarly, while gross value added is positive and significant for all three categories, only institutional portfolios with a direct sold class and singleton institutional portfolios have significantly positive net value added. Further, the differences between institutional portfolios with a broker sold class and the other two categories of institutional portfolios are economically and statistically significant. These results complement del Guercio and Reuter (2014) who find that managers of broker sold funds maximize brokers' incentives rather than investor incentives. Since due to long-standing relationships and revenue sharing arrangements, dual-registered brokers prefer

institutional portfolios with a broker sold class, my finding that this share class underperforms its counterparts provides evidence that dual-registrants do not improve the welfare of their fiduciary retail clients.

#### **4.4. Flows by distribution channel, Multivariate regressions**

Figures 4 and 5 indicate that mutual fund flows have shifted from broker-sold funds to institutional funds, especially institutional funds from families that also offer broker-sold mutual funds. Panel A of Table 10 performs multivariate regressions in which the dependent variable is annual dollar flows as a percent of prior year assets. Regressions include control variables measured at the distribution channel level: lagged log of AUM, lagged expense ratio, lagged flows, lagged turnover ratio, lagged log of age, lagged log of the size across all equity-related active portfolios in the fund family, dummy variables for the balanced and foreign equity strategies (domestic equity is the missing strategy), and year dummy variables. Column (1) regresses the dependent variable on dummy variables for broker sold retail and institutional and finds no difference, on average, in percent flows among the three distribution categories (differences between the coefficients are reported in Panel B).

Column (2) disaggregates the institutional channel into three variables: “Institutional; has broker sold,” “Institutional; singleton,” and “Institutional; has direct sold.” This analysis finds that institutional funds with a direct-sold counterpart have the highest percent flows during the sample period, relative to retail direct sold (the missing dummy variable) and, from Panel B, to retail broker sold, institutional funds with a broker sold counterpart, and institutional singleton funds.

Columns (3) and (4) add a dummy variable set to 1 if the fund family is named as a top revenue sharing partner by at least 5 top dual registrants. Appendix B lists these fund families. The coefficient on the revenue sharing dummy variable in Column (3) indicates that these funds attract flows about 1700 basis points higher than funds that do not revenue share, indicating that conflicted dual-registrants are successful in attracting client flows. Column (4) interacts the revenue sharing dummy variable with the “Institutional; has broker sold” dummy. Results in Column (4) of Panel B show that institutional funds with a broker sold share class that are among the top revenue sharing fund families attract flows about 1500 basis points higher than direct retail funds. More striking, for the subset of institutional funds with a broker sold share class, those that revenue share experience flows 2400 basis points higher than those that do not revenue share. These results provide strong evidence that the funds most frequently offered by conflicted dual registrants attract the highest fund flows.

Columns (5) and (6) add two dummy variables for whether the fund family is affiliated with an RIA. The first is set to one if the fund family is affiliated with a dual registrant and the second is set to one if the fund family is affiliated with an independent RIA. I hand collect these data from Form



ADV Part 2. Results of these regressions show little differences among distribution channels for flows to mutual funds that are affiliated with RIAs. Taken together, the results of this section provide strong evidence that revenue sharing mutual funds attract the highest flows, and that this effect also holds within the subset of institutional share classes of fund families that also have a broker-sold share class.

#### **4.5. Performance by distribution channel, Multivariate regressions**

Table 9 indicates that performance varies significantly by fund share class and Table 10 indicates that flows also vary by fund share class. Table 11 provides a more rigorous test of performance in a multivariate setting, regressing the four performance measures on dummy variables for broker sold retail and institutional, with the missing dummy being direct sold retail. Regressions include the same control variables as Table 10. Since these regressions are pooled across share classes, standard errors are clustered at the year and portfolio level.

Columns (1) and (2) show that the direct sold share class outperforms the broker sold retail and institutional share classes for gross and net alpha. The broker sold retail share class has net alpha that is 52 basis points worse than the net alpha for the direct sold retail share class. Some control variables are also significant: share class size is negatively related to alpha while fund family size is positively related. Higher expenses are associated with better gross alpha but worse net alpha. Although the institutional share class trails the direct sold retail class, it significantly outperforms the broker sold class for both measures as evidenced by the last row of the table which presents F-tests for the equality of the coefficients.

Panel A Column (3) presents results for gross value added which is the dollar value above the benchmark return generated by the manager. The broker sold retail channel underperforms direct sold by about \$4.3 million per year. Since the mean gross value added for the full sample is about \$2.8 million, this result is highly significant. Gross value added for the institutional share class is also worse than for direct sold. Results in Column (4) for net value added yield similar results. As with alpha, the institutional share class trails the direct sold retail class, but significantly outperforms the broker sold class for net value added. It does not outperform for gross value added.

Table 11 Panel B disaggregates the institutional channel into three variables: “Institutional; has broker sold,” “Institutional; singleton,” and “Institutional; has direct sold.” For all four performance measures, institutional portfolios with a broker sold class underperform direct sold retail portfolios and institutional portfolios with a direct sold class. These results highlight variation among institutional funds: those with a broker sold counterpart perform significantly worse than other institutional share classes, despite having similar expense ratios as reported in Table 9. These results are consistent with

del Guercio and Reuter (2014). As noted earlier, institutional funds with a broker sold class are most likely to be sold by dual registrants because these funds are most likely to revenue share.

Panel C adds a dummy variable for whether the fund family is named as a top revenue sharing partner by at least 5 top dual registrants. Appendix B lists these fund families. In the odd-numbered columns, results indicate that funds from families that revenue share underperform for all four performance measures. Further, the coefficient on “institutional; has broker sold retail” is insignificant for three of four measures, indicating revenue sharing appears to mostly subsume distribution channel.

The even-numbered columns include an interaction between “Institutional; has broker sold retail” and the revenue sharing dummy variable since all the revenue sharing families in Appendix B are broker-sold. The penultimate row of the table sums the coefficients on these variables: (revenue share dummy + institutional has broker sold dummy + interaction dummy) to estimate the incremental performance of revenue sharing institutional portfolios with a broker sold class to direct sold retail funds (the omitted dummy variable). The final row of the table tests whether revenue sharing institutional portfolios with a broker sold class perform differently than institutional share classes of fund portfolios not named by the top dual-registrants as top revenue sharing partners.

For all four performance measures, the sum of the three coefficients is negative and highly significant, indicating that institutional portfolios with a broker sold class from families that engage in the most revenue sharing significantly underperform the direct sold retail class (omitted variable). Further, institutional portfolios with a broker sold class that engage in the most revenue sharing underperform institutional portfolios with a broker sold class from families that engage in less (or no) revenue sharing, as evidenced by the last row in the table. Further, these are the same funds that receive the highest flows as reported in Table 10. These performance differences are highly economically and statistically significant, indicating that clients of conflicted dual-registrants appear to suffer welfare losses related to revenue sharing incentives of dual-registrants.

Panel D adds two dummy variables from Form ADV Part 2 for whether the fund family is affiliated with an RIA. The first is set to one if the fund family is affiliated with a dual registrant and the second is set to one if the fund family is affiliated with an independent RIA. The odd-numbered columns indicate that mutual funds affiliated with dual registrants have worse performance than those not affiliated with dual registrants, while mutual funds affiliated with independent RIAs have performance that does not differ from unaffiliated funds.

The even-numbered columns include an interaction between “affiliated with dual-registrant” and “institutional: has broker sold retail.” In these regressions, the coefficient on “affiliated with dual-registrant” continues to be negative and significant. Sums of the interaction variables reported at the

bottom of the table indicate that institutional portfolios with a broker sold class that are affiliated with dual-registrants significantly underperform the direct sold retail class. However, the marginal effect of having affiliated funds on the performance of the institutional class of portfolios that also have a broker sold class is statistically insignificant.

For robustness, Table 12 repeats the results of Table 11 using two different performance measures: the single factor alpha model (Jensen 1968) and the four-factor Carhart model (2007). The single factor model includes as the market factor the value-weighted CRSP index while the four-factor model uses the market factor, the Fama-French SMB (firm size) and HML (value) factors, and the Jegadeesh and Titman (1993) momentum factor. Returns are calculated for rolling 3 year periods, requiring two years of returns. Two limitations of these models relative to the Vanguard model are 1) they include no benchmark for international stocks, and 2) the benchmark portfolios are not directly investible. Despite these differences, results are consistent with Table 11. One exception is that for affiliated funds' gross alpha in Panel D, there is no evidence that the institutional share class of affiliated funds that also have a broker sold class underperform the direct retail sold class.

These results indicate that after the FPA surprise win in 2007, capital flowed from broker sold classes to institutional classes. Flows went disproportionately to revenue sharing institutional portfolios with a broker sold class, indicating that dual registrants moved clients from broker sold to institutional share classes of the same fund portfolios. Institutional portfolios with a broker sold class significantly underperform other types of institutional portfolios and direct sold retail classes. Results are strongest for fund families that revenue share. Consistent with prior theoretical models, dual registered RIAs appear to place their unsophisticated investors in the same underperforming revenue sharing institutional share classes of the portfolios that they sell to brokerage clients.

## **5. Conclusion**

Since 2007, significant investor capital has flowed out of broker-sold mutual funds. Simultaneously, capital has flowed into institutional share classes of these same broker-sold fund families. I link these flow patterns to a surprise victory by the Financial Planning Association (FPA) over the SEC requiring dual registered advisers that charge asset based fees in brokerage accounts to transfer these clients to their fiduciary (RIA) subsidiaries. While fiduciaries are required to act in the best interest of clients, I find that dual registered investment advisers have numerous conflicts of interest including cross-selling of insurance products, simultaneous sponsorship and management of wrap fee programs, revenue sharing with third party mutual fund families, and affiliated mutual funds. Dual registered RIAs appear to charge higher fees than independent RIAs and face significantly more disciplinary action by regulators. Finally, institutional portfolios with a broker sold class underperform

direct sold retail classes, institutional portfolios with a direct sold class, and singleton institutional classes, indicating lower investor welfare for clients of dual registrants relative to self-directed investors and independent RIA clients.

These findings have significant policy implications for retail investors. While the surprise FPA win was initially hailed as a victory for independent RIAs, the actual outcome has been strong growth in dual-registrant market share with neither a corresponding reduction in their conflicts of interest or fees nor a corresponding increase in retail client welfare. In fact, the welfare of their retail RIA clients may be worse than the welfare of their retail brokerage clients since self-reported fees for RIA retail clients are higher than the typical 1% fee for a broker sold constant load mutual fund (also known as a C share). Based on each firm's own self-reported data, RIA clients of dual registrants rarely receive personal financial planning services beyond investment allocation and selection advice. Because fewer than 10% of the largest independent RIAs state that they regularly accept retail clients, small investors must choose between a broker, a conflicted dual-registered RIA, or investing on their own.

The most obvious policy implication of my study is that dual registered investment advisers – who are required to act as fiduciaries – often fall short of the spirit of the fiduciary standard. While these advisers mostly meet the letter of the law (frequent disciplinary actions aside), their conflicts, high fees, and poor investment performance imply that they are not serving their clients' best interests. Hence, in my view, the SEC's current focus on requiring commission-based brokers to meet a fiduciary standard misses a key point: that conflicted dual registrants oversee trillions of dollars of retail client assets under management that are already subject to a fiduciary standard. My paper provides compelling evidence that these conflicts harm retail investors.

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**Table 1: Investment Adviser Firm Means and Medians**

Panel A of Table reports means and medians for dual-registrants and independent registered investment advisers (RIAs). These data come from Form ADV Part 1 for the period 2003-2016. The table presents means (medians) calculated across firms by year and then across years. Panel B reports the same data for any firm that appears in the top 75 of firms during any year (top 75 firms), based on assets under management. Panel C reports data for the top 75 firms collected from a manual review of Form ADV Part 2. Appendix 1 presents variable definitions. The table defines dual registered firms as those that report having an affiliated broker or a related party broker. RIA only firms are independent RIAs that have neither an affiliated broker nor a related party broker and do not employ registered representatives (brokers). For each category (dual-registered and RIA only), the table presents results of t-tests for differences in means assuming unequal variance. Statistical significance is indicated with \*\*\*, \*\*, and \* at the 1%, 5%, and 10% levels, respectively.

<b>Panel A: All Firms 2003-2016</b>							
	<b>All</b>		<b>Dual-registered</b>		<b>RIA only</b>		<b>Differences in means: Dual less RIA only</b>
	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>	<b>Mean</b>	<b>Median</b>	
<b>Assets and employees</b>							
Assets under mgmt. (AUM) in US \$ millions	\$1,739	\$142	\$4,518	\$205	\$369	\$132	\$4,149***
Number of advisory clients	3,621	482	9,788	731	643	406	9,145***
Estimated number of individual clients	2,563	251	7,120	411	355	197	6,765***
Proportion of clients that are individuals	0.58	0.63	0.61	0.63	0.57	0.63	0.04***
Estimated total AUM for individuals (US \$ millions)	\$560	\$54	\$1,454	\$72	\$114	\$49	\$1,340***
Number of employees	127	5	363	11	9	4	354***
Number of investment adviser reps. (IARs)	68	4	194	5	5	3	189***
Number of registered representatives	84	0	253	5	0	0	NA
Number of clients per IAR	140	97	135	74	142	106	-7
Prop. of employees also ins. agents	0.40	NA	0.77	NA	0.23	NA	0.54***
<b>Firm characteristics</b>							
Dummy: has affiliated insurance co.	0.08	NA	0.18	NA	0.03	NA	0.15***
Dummy: has related party insurance co.	0.23	NA	0.55	NA	0.08	NA	0.47***
Dummy: has either affiliated or related insurance co.	0.14	NA	0.31	NA	0.07	NA	0.24***
Dummy: portfolio mgr. wrap program	0.17	NA	0.29	NA	0.11	NA	0.18***
Dummy: sponsors wrap program	0.11	NA	0.25	NA	0.03	NA	0.22***
Dummy: manages and sponsors a wrap program	0.08	NA	0.19	NA	0.03	NA	0.16***
Dummy: offers financial planning (FP)	0.66	NA	0.73	NA	0.62	NA	0.11***
Dummy: has zero FP clients	0.39	NA	0.33	NA	0.43	NA	-0.10***
Prop. of clients receiving FP	0.12	NA	0.12	NA	0.12	NA	0.00
<b>Disciplinary actions in past 10 years (dummy variable =1 if firm employs at least one), in percent</b>							
Dummy: Convicted felon	0.50	NA	1.40	NA	0.10	NA	1.30***
Dummy: Convicted of misdemeanor	0.70	NA	2.00	NA	0.00	NA	2.00***
Dummy: False statement to SEC/CFTC	1.50	NA	3.60	NA	0.50	NA	3.10***
Dummy: Violate SEC/CFTC statutes	3.50	NA	8.90	NA	0.80	NA	8.10***
Dummy: SEC order against	7.00	NA	17.10	NA	1.90	NA	15.20***
Dummy: Court enjoined	0.90	NA	2.40	NA	0.10	NA	2.30***
Number of observations (firm/year)	35,488		11,795		23,693		NA





**Table 1: 75 Largest Firms in each Category, continued**  
**Panel C: Form ADV Part 2 Means**

	All	Dual-registered	RIA only	Dual less RIA only
<b>Number of firms with ADV Part 2 data</b>	243	94	149	NA
<b><u>Minimum AUM, fees, and client types</u></b>				
RIA start date	1991	1990	1992	NA
Dummy: Accept retail clients	0.27	0.55	0.09	0.46 <sup>***</sup>
Minimum investment, all firms (US \$)	\$1,727,403	\$702,228	\$2,405,935	-\$1,703,707 <sup>***</sup>
Fee for > \$1MM AUM: Percent of AUM	1.14%	1.39%	1.02%	0.37% <sup>***</sup>
Minimum investment if accept retail	\$18,561	\$21,731	\$6,786	\$14,945 <sup>***</sup>
Fee for <\$100K AUM: Percent of AUM	1.97%	2.19%	1.15%	1.04% <sup>***</sup>
<b><u>Revenue sharing dummy variables</u></b>				
Dummy: Engages in revenue sharing	0.21	0.53	0.01	0.52 <sup>***</sup>
Dummy: Offers limited number of mutual fund families	0.16	0.40	0.00	0.40 <sup>***</sup>
Dummy: Offers only mutual funds that engage in revenue sharing	0.08	0.20	0.00	0.20 <sup>***</sup>
Dummy: Has preferred list of mutual funds	0.11	0.28	0.01	0.27 <sup>***</sup>
<b><u>Affiliated fund dummy variables</u></b>				
Dummy: Has affiliated mutual funds	0.41	0.60	0.29	0.31 <sup>***</sup>
Dummy: Affiliated mutual funds subject to reduced due diligence	0.10	0.16	0.02	0.14 <sup>***</sup>
<b>Disciplinary action detail for firms with at least one disciplinary action</b>				
Number ADV Part 2 firms with at least one disciplinary action	49	48	1	NA
Number disciplinary actions in last 10 years	10	10	1	9 <sup>a</sup>
Total fines in last 10 years (\$)	\$58,800,000	\$60,000,000	\$20,000	\$59,980,000 <sup>a</sup>
<b>Disciplinary action related to registered representatives with at least one disciplinary action</b>				
Fines associated with registered reps.	\$51,202,184	\$52,240,954	NA	NA
Dummy: Reg rep has conflict of interest	0.14	0.15	NA	NA
Dummy: Reg rep misled investors	0.61	0.62	NA	NA
Dummy: Reg rep not properly supervised	0.53	0.54	NA	NA
Dummy: Improper data reporting or other internal control violation	0.67	0.69	NA	NA
Dummy: Reg rep overcharged mutual fund or variable annuity fees	0.49	0.50	NA	NA
Dummy: Reg rep traded ahead of clients	0.06	0.06	NA	NA
Dummy: Reg rep market manipulation	0.02	0.02	NA	NA
Dummy: Data hack occurred	0.10	0.10	NA	NA
<b>Disciplinary action related to investment adviser representatives (IAR) with at least one disciplinary action</b>				
Fines associated with IARs	\$7,597,816	\$7,759,046	\$20,000	\$7,739,046 <sup>a</sup>
Dummy: IAR has conflict of interest	0.14	0.15	0.00	0.15 <sup>a</sup>
Dummy: IAR not properly supervised	0.12	0.13	0.00	0.13 <sup>a</sup>
Dummy: IAR misled investors	0.20	0.19	1.00	-0.81 <sup>a</sup>
Dummy: IAR overcharged advisory fees	0.06	0.06	0.00	0.06 <sup>a</sup>
Dummy: IAR overcharged 12b-1 fees	0.10	0.10	0.00	0.10 <sup>a</sup>

<sup>a</sup> Cannot calculate t-test since only one RIA only firm has a single disciplinary action.

**Table 2: Insurance Affiliations of Dual-Registrants and Independent RIAs**

This table reports results of regressions examining insurance affiliations among RIAs. Panel A includes all firms. Column 1 performs a Logit regression in which the dependent variable is a dummy set to 1 if the firm has either an affiliated or related party insurance company and zero otherwise. For Column (1) standard errors are clustered by firm and by year. Column (1) report odds ratios. Column (2) performs an OLS regression in which the dependent variable is the proportion of RIA employees that licensed to sell insurance. In Column (2), the standard errors are clustered by firm and by year. Column (3) repeats this regression, adding firm fixed effects. For Columns (2) and (3), the dependent variable is available from 2011 forward. Panel B includes only the largest 75 firms, measured each year. If a firm is in the top 75 firms during any year, all years of existence are included. Panel B also includes a variable set to one of the firm accepts retail clients and zero otherwise. All regressions include year dummies. Independent variables include a dummy variable set to 1 if the firm is a dual registrant and 0 if the firm is an independent RIA, the log of firm size, winsorized at the 1% level, the estimated proportion of clients that are individuals, a dummy variable for whether the firm offers financial planning services, and the proportion of clients that receives financial planning services. t-values or z-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

**Panel A: All Firms**

	Dummy if firm has affiliated or related insurance company	Proportion of employees licensed to sell insurance	
	Logit: (1)	OLS (2)	OLS: Firm Fixed Effects (3)
Dual-registrant dummy	4.785*** (25.54)	0.317*** (33.08)	0.045** (2.35)
Log of assets under mgmt. (AUM)	1.365*** (15.66)	-0.029*** (-8.59)	-0.010 (-1.52)
Proportion individual clients	2.579*** (7.33)	0.172*** (11.14)	-0.001 (-0.12)
Dummy: offers financial planning	3.705*** (16.41)	0.136*** (17.74)	0.009 (1.08)
Proportion financial planning clients	0.342*** (-7.35)	-0.107*** (-5.85)	0.001 (0.07)
Number of observations	35,416	14,549	14,549
Includes time dummies?	No	Yes	Yes
Includes firm fixed effects?	No	No	Yes
R <sup>2</sup> or pseudo R <sup>2</sup>	0.179	0.344	0.269

**Table 2: Insurance Affiliations of Dual-Registrants and Independent RIAs, continued**  
**Panel B: Top 75 firm sample**

	Dummy if firm has affiliated or related insurance company		Proportion of employees licensed to sell insurance	
	Logit: (1)	Logit with interaction (2)	OLS (3)	OLS with interaction (4)
Dual-registrant dummy	4.023*** (3.03)	7.072*** (4.18)	0.131*** (4.28)	0.033 (1.58)
Accepts retail clients dummy	1.501 (1.17)	10.555*** (3.77)	0.333*** (7.05)	0.057 (1.28)
Dual-registrant dummy x accepts retail clients dummy		0.098*** (-3.27)		0.444*** (7.08)
Log of assets under mgmt. (AUM)	2.269*** (6.39)	2.312*** (6.46)	0.013 (1.08)	0.006 (0.54)
Proportion individual clients	2.407* (1.74)	2.732* (1.96)	0.131*** (2.43)	0.089* (1.72)
Dummy: offers financial planning	3.270*** (3.37)	4.065*** (3.59)	0.090*** (3.76)	0.039* (1.89)
Proportion financial planning clients	0.159 (-0.95)	0.109 (-1.13)	-0.156** (-1.92)	-0.084 (-1.41)
Number of observations	2,038	2,038	936	936
Includes time dummies?	No	No	Yes	Yes
R <sup>2</sup> or pseudo R <sup>2</sup>	0.322	0.333	0.681	0.743
Dual registrants that accept retail clients versus independent RIA (dual + accept + interaction)		7.279*** (3.85)		0.534*** (12.20)
Dual registrant that accepts retail clients – Dual registrant that does not accept retail clients (accepts + interaction)		1.031 (0.08)		0.500*** (10.41)

**Table 3: Simultaneous Management and Sponsorship of Wrap Programs**

This table reports results of Logit regressions examining simultaneous management and sponsorship of wrap programs. Column (1) includes all firms. The dependent variable is a dummy set to 1 if the firm simultaneously manages and sponsors a wrap program and zero otherwise. The table reports odds ratios. Column (2) re-Columns (2) – (3) perform the same analyses for the top 75 sample and add a dummy variable set to 1 if the firm accepts retail clients. Column (3) interacts this variable with the dual registrant dummy. Standard errors are clustered by firm. All other control variables are as in Table 2. z-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

**Dependent Variable: Dummy set to 1 if the firm simultaneously manages and sponsors a wrap program**

	All Firms	Top 75 firms	
	Logit: (1)	Logit: (2)	Logit with interaction (3)
Dummy: Dual registrant	4.807*** (15.85)	10.972*** (4.30)	8.196*** (2.96)
Accepts retail clients dummy		9.068*** (4.32)	4.377 (1.37)
Dual-registrant dummy x accepts retail clients dummy			2.321 (0.72)
Log of assets under mgmt. (AUM)	1.439*** (12.03)	1.641*** (2.78)	1.645** (2.78)
Proportion individual clients	2.977*** (5.57)	2.636 (1.34)	2.604 (1.31)
Dummy: offers financial planning	1.852*** (5.14)	1.559 (0.95)	1.467 (0.79)
Proportion financial planning clients	0.184*** (-5.50)	1.138 (0.08)	1.211 (0.12)
Number of observations	35,416	2,038	2,038
Includes time dummies?	No	No	No
Pseudo R <sup>2</sup>	0.173	0.488	0.489
Dual registrants that accept retail clients versus independent RIA (dual + accepts + interaction)			83.271*** (6.35)
Dual registrants that accept retail– Dual registrants that do not accept retail (accepts + interaction)			10.160*** (4.09)

**Table 4: Revenue sharing by dual registrants and independent RIAs  
Top 75 firms by AUM**

This table reports results of Logit regressions examining revenue sharing. In Columns (1) and (2) the dependent variable is a dummy set to 1 if the firm receives revenue sharing payments and zero otherwise. For Columns (3) and (4), the dependent variable is a dummy set to 1 if mutual fund families are ranked into tiers based on their levels of revenue sharing and zero otherwise. The table reports odds ratios. Control variables are the same as in Table 3. z-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

	<b>Dummy: Revenue Sharing?</b>		<b>Dummy: Funds Ranked into Tiers?</b>	
	<b>Logit (1)</b>	<b>Logit with interaction (2)</b>	<b>Logit (3)</b>	<b>Logit with interaction(4)</b>
Dummy: Dual registrant	37.968*** (3.28)	14.041** (2.34)	31.896*** (5.00)	12.937*** (7.52)
Accepts retail clients dummy	12.318*** (3.89)	0.000*** (-11.70)	11.429** (2.29)	0.000*** (-10.14)
Dual-registrant dummy x accepts retail clients dummy		615.000*** (13.04)		1142.00*** (19.92)
Log of assets under mgmt. (AUM)	0.908 (-0.47)	0.897 (-0.49)	0.779 (-1.27)	0.778 (-1.27)
Proportion individual clients	6.164* (1.63)	5.959 (1.54)	1.921 (0.64)	1.853 (0.60)
Dummy: offers financial planning	5.784*** (2.67)	5.070** (2.41)	9.657*** (3.09)	9.130*** (3.03)
Proportion financial planning clients	0.078 (-1.37)	0.076 (-1.36)	0.046* (-1.65)	0.046* (-1.66)
Number of observations	2,038	2,038	2,038	2,038
Includes time dummies?	No	No	No	No
Pseudo R <sup>2</sup>	0.666	0.676	0.490	0.493
Dual registrants that accept retail clients versus independent RIA (dual + accepts + interaction)		243.472*** (4.86)		184.196*** (4.74)
Dual registrants that accept retail– Dual registrants that do not accept retail (accepts + interaction)		17.340*** (4.20)		14.239*** (2.39)

**Table 5: Affiliated mutual funds by dual registrants and independent RIAs  
Top 75 firms by AUM**

This table reports results of Logit regressions examining whether firms have affiliated mutual funds. In Columns (1) and (2) the dependent variable is a dummy set to 1 if the firm has affiliated mutual funds and zero otherwise. For Columns (3) and (4), the dependent variable is a dummy set to 1 if affiliated funds are subject to lower due diligence and zero otherwise. The table reports odds ratios. Control variables are the same as in Table 3. z-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

	<b>Dummy: Has affiliated funds</b>		<b>Dummy: Affiliated funds have lower due diligence</b>	
	<b>Logit (1)</b>	<b>Logit with interaction (2)</b>	<b>Logit (3)</b>	<b>Logit with interaction(4)</b>
Dummy: Dual registrant	4.013*** (3.98)	3.515*** (3.31)	10.040** (2.39)	8.613** (2.19)
Accepts retail clients dummy	0.802 (-0.52)	0.417 (-1.15)	3.517* (1.89)	0.000*** (-8.13)
Dual-registrant dummy x accepts retail clients dummy		2.354 (0.98)		619.05*** (9.11)
Log of assets under mgmt. (AUM)	1.482*** (3.30)	1.474*** (3.25)	1.414 (0.89)	1.4145 (0.89)
Proportion individual clients	2.237 (1.48)	2.147 (1.41)	0.424 (-0.62)	0.421 (-0.63)
Dummy: offers financial planning	0.396*** (-2.63)	0.368*** (-2.71)	1.493 (0.71)	1.468 (0.67)
Proportion financial planning clients	0.561 (-0.38)	2.148 (-0.30)	0.222 (-0.73)	0.230 (-0.72)
Number of observations	2,038	2,038	838	838
Includes time dummies?	No	No	No	No
Pseudo R <sup>2</sup>	0.157	0.159	0.186	0.187
Dual registrants that accept retail clients versus independent RIA (dual + accepts + interaction)		3.452*** (2.60)		31.249*** (3.19)
Dual registrants that accept retail– Dual registrants that do not accept retail (accepts + interaction)		0.982 (-0.04)		3.629* (1.93)

**Table 6: Fees  
Top 75 firms by AUM**

This table reports results of OLS regressions examining fees. In Columns (1) and (2) the dependent variable is fees as a percent of assets for clients with over \$1 million in assets. For Column (3), the dependent variable is fees as a percent of assets for clients with less than \$100,000 in assets. Control variables are the same as in Table 3. t-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

	Fees for \$1 million clients		Fees for \$100,000 clients
	OLS (1)	OLS with interaction (2)	OLS (3)
Dummy: Dual registrant	0.111* (1.86)	0.012 (0.21)	0.890*** (5.05)
Accepts retail clients dummy	0.346*** (4.53)	0.142 (1.28)	
Dual-registrant dummy x accepts retail clients dummy		0.345*** (2.58)	
Log of assets under mgmt. (AUM)	0.036* (1.66)	0.037* (1.74)	0.028 (0.71)
Proportion individual clients	-0.041 (-0.43)	-0.055 (-0.58)	0.136 (0.55)
Dummy: offers financial planning	0.103*** (2.58)	0.062* (1.67)	0.217 (1.36)
Proportion financial planning clients	-0.216 (-1.33)	-0.128 (-0.85)	0.085 (0.25)
Number of observations	1,772	1,772	689
Includes time dummies?	No	No	No
R <sup>2</sup>	0.354	0.374	0.398
Dual registrants that accept retail clients versus independent RIA (dual + accepts + interaction)		0.499*** (6.20)	
Dual registrants that accept retail– Dual registrants that do not accept retail (accepts + interaction)		0.487*** (5.62)	

**Table 7: Disciplinary actions**

This table reports results of Logit regressions examining disciplinary actions against RIAs. Panel A includes all firms. Columns (1) to (6) perform Logit regression in which the dependent variables are dummies set to 1 or zero for: convicted felon, convicted of misdemeanor, false statement to SEC, violate SEC statutes, SEC order against, and court enjoined, respectively. Standard errors are clustered by firm and by year. Panel B includes only the largest 75 firms. If a firm is in the top 75 firms during any year, all years of its existence are included. Panel B repeats the regressions of Panel A adding a variable set to one of the firm accepts retail clients and zero otherwise. All regressions include year dummies. Independent variables include a dummy variable set to 1 if the firm is a dual registrant and 0 if the firm is an independent RIA, the log of firm size, winsorized at the 1% level, the estimated proportion of clients that are individuals, a dummy variable for whether the firm offers financial planning services, and the proportion of clients that receives financial planning services. z-values are reported below coefficients in parentheses. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

**Panel A: All Firms**

	<b>Logit: Felon (1)</b>	<b>Logit: Misdemeanor (2)</b>	<b>Logit: False stmt. To SEC (3)</b>	<b>Logit: Violate SEC statutes (4)</b>	<b>Logit: SEC order against (5)</b>	<b>Logit: Court enjoined (6)</b>
Dual-registrant dummy	5.141 <sup>***</sup> (3.38)	17.811 <sup>***</sup> (5.16)	2.837 <sup>***</sup> (4.38)	6.363 <sup>***</sup> (10.04)	6.525 <sup>***</sup> (15.51)	5.552 <sup>***</sup> (3.93)
Log of assets under mgmt. (AUM)	2.480 <sup>***</sup> (7.99)	2.648 <sup>***</sup> (7.90)	2.000 <sup>***</sup> (10.96)	1.824 <sup>***</sup> (14.12)	1.730 <sup>***</sup> (15.95)	2.202 <sup>***</sup> (9.16)
Proportion individual clients	19.57 <sup>***</sup> (4.70)	58.731 <sup>***</sup> (5.96)	2.322 <sup>**</sup> (2.07)	3.398 <sup>***</sup> (4.28)	6.347 <sup>***</sup> (8.34)	3.683 <sup>**</sup> (2.28)
Dummy: offers financial planning	4.661 <sup>***</sup> (3.37)	4.659 <sup>***</sup> (2.57)	1.874 <sup>***</sup> (2.59)	1.565 <sup>***</sup> (2.64)	2.222 <sup>***</sup> (5.92)	2.392 <sup>***</sup> (2.60)
Proportion financial planning clients	1.983 (0.76)	0.174 (-1.45)	0.051 <sup>**</sup> (-2.15)	0.077 <sup>***</sup> (-3.62)	0.331 <sup>***</sup> (-3.23)	0.150 <sup>**</sup> (-1.95)
Number of observations	35,416	35,416	35,416	35,416	35,416	35,416
Includes time dummies?	Yes	Yes	Yes	Yes	Yes	Yes
Includes firm fixed effects?	No	No	No	No	No	No
Pseudo R <sup>2</sup>	0.360	0.473	0.243	0.273	0.261	0.318



**Table 7: Disciplinary actions, continued**  
**Panel B: Top 75 firms**

	Logit: Felon		Logit: Misdemeanor		Logit: False stmt. to SEC		Logit: Violate SEC statutes		Logit: SEC order against		Logit: Court enjoined	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Dual-registrant dummy	omit	omit	12.949**	10.924**	10.27***	8.732**	15.30***	14.41***	11.51***	6.467***	2.889	2.241
	<i>omit</i>	<i>omit</i>	<i>(2.22)</i>	<i>(2.10)</i>	<i>(2.70)</i>	<i>(1.98)</i>	<i>(4.09)</i>	<i>(2.99)</i>	<i>(4.75)</i>	<i>(3.31)</i>	<i>(0.87)</i>	<i>(0.61)</i>
Accepts retail clients dummy	4.325*	4.325*	2.178	0.000***	12.06***	8.438	15.95***	14.31**	11.11***	1.438	5.846*	-0.000***
	<i>(1.77)</i>	<i>(1.77)</i>	<i>(0.88)</i>	<i>(-6.32)</i>	<i>(4.24)</i>	<i>(1.32)</i>	<i>(5.21)</i>	<i>(2.28)</i>	<i>(4.79)</i>	<i>(0.32)</i>	<i>(1.70)</i>	<i>(-11.61)</i>
Dual-registrant dummy x accepts retail clients dummy		omit		237***		1.487		1.013		10.562**		260.0***
		<i>omit</i>		<i>(6.17)</i>		<i>(0.22)</i>		<i>(0.09)</i>		<i>(1.98)</i>		<i>(10.28)</i>
Log of assets under mgmt. (AUM)	4.590***	4.590***	4.194***	4.221***	2.097***	2.099***	1.901***	2.207***	1.921***	1.946***	4.419***	4.367***
	<i>(3.66)</i>	<i>(3.66)</i>	<i>(3.43)</i>	<i>(3.47)</i>	<i>(2.88)</i>	<i>(2.89)</i>	<i>(3.57)</i>	<i>(4.01)</i>	<i>(4.33)</i>	<i>(4.33)</i>	<i>(4.58)</i>	<i>(4.56)</i>
Proportion individual clients	13.932**	13.932**	32.60***	32.98***	2.171	2.184	2.314	2.722	1.373	1.310	5.202	5.187
	<i>(2.18)</i>	<i>(2.18)</i>	<i>(3.33)</i>	<i>(3.43)</i>	<i>(0.89)</i>	<i>(0.90)</i>	<i>(1.02)</i>	<i>(1.26)</i>	<i>(0.37)</i>	<i>(0.30)</i>	<i>(1.25)</i>	<i>(1.25)</i>
Dummy: offers financial planning	3.967**	3.967**	2.452	2.379	0.357**	0.349*	0.441	0.490	1.098	0.922	0.501	0.468
	<i>(2.48)</i>	<i>(2.48)</i>	<i>(1.19)</i>	<i>(1.16)</i>	<i>(-1.95)</i>	<i>(-1.90)</i>	<i>(-1.68)</i>	<i>(-1.43)</i>	<i>(0.20)</i>	<i>(-0.17)</i>	<i>(-0.73)</i>	<i>(-0.78)</i>
Proportion financial planning clients	0.000	0.000	8.535	13.855	13.824	14.589	3.959	2.584	3.260	4.324	0.002	0.003
	<i>(-0.84)</i>	<i>(-0.84)</i>	<i>(0.79)</i>	<i>(0.84)</i>	<i>(1.35)</i>	<i>(1.41)</i>	<i>(0.92)</i>	<i>(0.72)</i>	<i>(1.27)</i>	<i>(1.58)</i>	<i>(-0.31)</i>	<i>(-0.29)</i>
Number of observations	956	956	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038	2,038
Includes time dummies?	No	No	No	No	No	No	No	No	No	No	No	No
Pseudo R <sup>2</sup>	0.308	0.308	0.416	0.416	0.339	0.339	0.444	0.459	0.502	0.508	0.370	0.391
Dual registrants that accept retail clients versus independent RIA (dual + accept + interaction)		NA		24.685**		109.6***		181.1***		98.24***		14.677*
				<i>(2.15)</i>		<i>(4.49)</i>		<i>(5.65)</i>		<i>(6.49)</i>		<i>(1.75)</i>
Dual registrant that accepts retail clients – Dual registrant that does not accept retail clients (accepts + interaction)		NA		2.230		12.55***		16.04***		15.19***		1.879*
				<i>(0.91)</i>		<i>(3.91)</i>		<i>(4.33)</i>		<i>(4.77)</i>		<i>(1.69)</i>

**Table 8: Summary statistics of mutual fund characteristics**

Panel A reports summary statistics for mutual fund characteristics, at the fund portfolio and fund portfolio-distribution channel levels. AUM is assets under management reported in U.S. millions of dollars. Net \$ flow is the dollar flow for the fund is calculated as the fund size at year end less the fund size at the start of the year multiplied by the fund's raw return during the year. Net percent flow is the net dollar flow for the fund scaled by prior year net assets. Fund age is the number of years the oldest share class of the fund has been in existence. Turnover ratio is the minimum of aggregated sales or aggregated purchases of securities, divided by the average net assets of the fund. Domestic equity, balanced, and foreign equity dummy variables are set to 1 if the mutual fund is in that style category, and zero otherwise. Panel B reports differences among selected categories and performs t-tests of differences in means, allowing for unequal variance. Panel C reports results for the Institutional class categorized by whether the portfolio also has another distribution channel. All variables except indicators are winsorized at the 1% and 99% tails. Statistical significance is indicated with \*\*\*, \*\*, or \* for the 1%, 5%, and 10% levels, respectively.

**Panel A: Means**

<b>Variables</b>	<b>Aggregated at portfolio level</b>	<b>Broker sold retail</b>	<b>Direct sold retail</b>	<b>Institutional</b>
N	5,316	2,838	2,143	3,106
AUM (\$ Million)	645	648	914	437
Net dollar flow (\$ Million)	-2.07	-18.8	-9.1	21.2
Net percent flow (% AUM)	67.8	58.7	34.2	103.6
Fund age, years	11	12	13	9
Expense ratio (% AUM)	1.2	1.5	1.2	1.0
Turnover ratio (% AUM)	84.4	86.3	85.8	81.3
Domestic equity dummy	0.66	0.65	0.69	0.64
Balanced dummy	0.11	0.13	0.11	0.09
Foreign equity dummy	0.23	0.22	0.20	0.27

**Panel B: Differences and t-tests**

<b>Differences</b>	<b>Broker sold retail – Direct sold retail</b>	<b>Broker sold retail – Institutional</b>	<b>Direct retail – Institutional</b>
AUM (\$ Million)	-266***	210***	477***
Net dollar flow (\$ Million)	-9.70***	-40.4***	-30.3***
Net percent flow (% AUM)	24.5***	-45.0***	-69.5***
Fund age, years	-1***	3***	4***
Expense ratio (% AUM)	0.3***	0.5***	0.2***
Turnover ratio (% AUM)	0	4.9***	4.4***
Domestic equity dummy	-0.04***	-0.01*	0.05***
Balanced dummy	0.01***	0.04***	0.02***
Foreign equity dummy	0.03***	-0.04***	-0.07***

**Table 8: Summary statistics of mutual fund characteristics, continued**

**Panel C: Institutional funds, means and differences**

<b>Differences</b>	<b>Means</b>			<b>Differences</b>		
	<b>Portfolio also has broker sold class</b>	<b>Portfolio also has direct sold class</b>	<b>Singleton portfolio</b>	<b>Has broker - has direct</b>	<b>Has broker-singleton</b>	<b>Has direct - singleton</b>
N	1,867	417	992	NA	NA	NA
AUM (\$ Million)	409	377	543	32	134***	-166***
Net dollar flow (\$ Million)	18.3	33.7	23.6	-15.4***	-5.3	10.1**
Net percent flow (% AUM)	114	104	74	10	39***	30**
Fund age, years	9	7	8	2***	1***	-1***
Expense ratio (% AUM)	0.98	1.05	0.97	-0.07***	0.01	0.08***
Turnover ratio (% AUM)	84.5	70.6	76.9	13.9***	7.6***	-6.3***
Domestic equity dummy	0.66	0.67	0.57	0.01	0.09***	0.10***
Balanced dummy	0.10	0.07	0.06	0.03***	0.04***	0.01
Foreign equity dummy	0.23	0.26	0.37	-0.03***	-0.14***	-0.11***

**Table 9: Summary statistics of performance measures**

Panel A reports summary statistics for annualized performance measures, at both the fund portfolio and fund portfolio-distribution channel levels. Averages are calculated across all years for fund portfolio (fund portfolio-distribution channels), and then cross-sectionally. Gross alpha (annual % EW) is the annualized monthly alpha calculated using the fund's monthly return grossed up by monthly expenses and regressed on monthly returns for eleven Vanguard mutual funds representing different asset classes, equally weighted in the cross-section. Net alpha is the annualized monthly alpha calculated using the fund's monthly return after expenses and regressed on monthly returns for eleven Vanguard mutual funds representing different asset classes, value weighted in the cross-section by assets under management. Gross value added is gross alpha times fund assets under management (in US millions of dollars) in the prior year. Net value added is net alpha times fund assets under management (in US millions of dollars) in the prior year. Panel B reports differences among selected categories, and performs t-tests of differences in means, allowing for unequal variance. Panel C reports results for the institutional class categorized by whether the portfolio also has another distribution channel. For the return and value added measures, Panel C also reports t-tests for whether these variables are statistically different from zero. Significance is reported with \*\*\*, \*\*, and \* for the 1%, 5%, and 10% levels respectively. All variables except indicators are winsorized.

**Panel A: Means**

<b>Variables</b>	<b>Aggregated at portfolio level</b>	<b>Broker sold retail</b>	<b>Direct sold retail</b>	<b>Institutional</b>
Gross alpha (annual %) EW	0.64***	0.50***	0.82***	0.65***
Gross alpha (annual %) VW	1.08***	1.02***	1.24***	0.92***
Net alpha (annual %) EW	-0.61***	-1.00***	-0.41***	-0.34***
Net alpha (annual %) VW	0.11**	-0.23***	0.45***	0.12
Gross value added (\$ millions)	5.61***	5.45***	8.64***	3.48***
Net value added (\$ millions)	0.327*	-1.34***	2.40***	0.51***

**Panel B: Differences and t-tests**

<b>Differences</b>	<b>Broker sold retail – Direct sold retail</b>	<b>Broker sold retail – Institutional</b>	<b>Direct retail – Institutional</b>
Gross alpha (annual %) EW	-0.31***	-0.15***	0.17**
Gross alpha (annual %) VW	-0.22*	-0.10	0.32***
Net alpha (annual %) EW	-0.59***	-0.66***	0.07
Net alpha (annual %) VW	-0.68***	-0.35***	0.33***
Gross value added (\$ millions)	-3.19***	1.98***	5.17***
Net value added (\$ millions)	-3.74***	-1.85***	1.89***

**Table 9: Summary statistics of performance measures, continued**

**Panel C: Institutional funds by subcategory, means and differences**

<b>Differences</b>	<b>Means</b>			<b>Differences</b>		
	<b>Portfolio also has broker sold class</b>	<b>Portfolio also has direct sold class</b>	<b>Singleton portfolio</b>	<b>Has broker – has direct</b>	<b>Has broker-singleton</b>	<b>Has direct - singleton</b>
Gross alpha (annual %) EW	0.643***	1.172***	0.444***	-0.529***	0.198**	0.728***
Gross alpha (annual %) VW	0.820***	1.354***	1.002***	-0.534**	-0.182	0.352
Net alpha (annual %) EW	-0.343***	0.120	-0.538***	-0.463***	0.195**	0.658***
Net alpha (annual %) VW	-0.041	0.486***	0.337***	-0.527**	-0.379**	0.149
Gross value added (\$ millions)	2.99***	3.95***	4.59***	-0.96	-1.60***	-0.65
Net value added (\$ millions)	0.042	1.27***	1.47***	-1.22**	-1.43***	-0.21

**Table 10: Mutual fund flows by distribution channel**

Panel A performs OLS regressions of annual percent mutual fund flows on indicator variables representing fund distribution channels. The regressions are performed at the share class level, aggregating all fund share classes in each fund portfolio for each distribution channel. The missing channel indicator variable is direct-sold retail. Regressions include control variables: lagged share class size (log), lagged share class dollar flows, lagged expense ratio, lagged turnover ratio, the lagged log of fund age, the lagged log of the size of the assets under management at the fund family, style dummies, and year dummies. The missing style dummy is domestic equity and the missing year dummy is 2004. All regressions cluster the standard errors by fund portfolio and by year. The table also reports p-values for tests of differences between coefficients on distribution channel dummies. t-statistics are reported below the coefficients in parentheses. Panel B reports differences and p-values from f-tests of differences among variables or for interactions of variables. All variables except indicators are winsorized. Significance is reported with \*\*\*, \*\*, and \* for the 1%, 5%, and 10% levels respectively.

	<b>Panel A: Regressions</b>					
<b>Dependent variable: % flows</b>	<b>All</b>	<b>Break out</b>	<b>Rev share</b>	<b>Rev share</b>	<b>Affiliated</b>	<b>Affiliated</b>
<b>Dist. channel dummies</b>	<b>(1)</b>	<b>inst. (2)</b>	<b>dummy (3)</b>	<b>interact (4)</b>	<b>dummy (5)</b>	<b>interact (6)</b>
Broker sold retail dummy	0.021 (0.56)	0.020 (0.54)	-0.042 (-1.00)	-0.023 (-0.56)	0.037 (0.97)	0.036 (0.96)
Institutional dummy	0.029 (0.79)					
Institutional; has broker sold		0.017 (0.41)	-0.055 (-1.21)	-0.088* (-1.68)	0.035 (0.81)	0.037 (0.77)
Institutional; has direct sold		0.263** (2.44)	0.258** (2.40)	0.259** (2.41)	0.280*** (2.60)	0.280*** (2.59)
Institutional; singleton		-0.057 (-0.83)	-0.055 (-0.80)	-0.055 (-0.80)	-0.055 (-0.80)	-0.056 (-0.80)
Revenue share dummy			0.174*** (3.60)	0.130*** (2.73)		
Inst; has broker x rev. share				0.111 (1.29)		
Affil. w dual-registrant					-0.141*** (-3.26)	-0.138*** (-3.25)
Affil w ind. RIA					-0.040 (-0.53)	-0.040 (-0.53)
Inst; has broker x affil. w/dual						-0.011 (-0.13)
<b>Control variables</b>						
Lagged log of size	-0.367*** (-17.84)	-0.368*** (-17.82)	-0.369*** (-17.83)	-0.368*** (-17.85)	-0.369*** (-17.80)	-0.369*** (-17.80)
Lagged % flows	0.015*** (4.77)	0.015*** (4.79)	0.014*** (4.71)	0.014*** (4.68)	0.015*** (4.77)	0.015*** (4.77)
Lagged expense ratio	-0.354*** (-6.08)	-0.359*** (-6.11)	-0.370*** (-6.26)	-0.367*** (-6.25)	-0.361*** (-6.13)	-0.361*** (-6.14)
Lagged turnover ratio	0.000 (-0.29)	-0.001 (-0.34)	-0.001 (-0.33)	-0.001 (-0.33)	-0.001 (-0.33)	-0.001 (-0.33)
Lagged log of age	-0.188*** (-7.51)	-0.187*** (-7.52)	-0.187*** (-7.53)	-0.187*** (-7.56)	-0.187*** (-7.51)	-0.187*** (-7.53)
Lagged log of family size	0.118*** (12.35)	0.120*** (12.31)	0.109*** (11.07)	0.109*** (11.17)	0.121*** (12.33)	0.121*** (12.36)
Foreign equity style dummy	-0.021 (-0.52)	-0.017 (-0.42)	-0.018 (-0.45)	-0.019 (-0.46)	-0.014 (-0.34)	-0.014 (-0.34)
Balanced style dummy	-0.097** (-2.00)	-0.098** (-1.99)	-0.106** (-2.16)	-0.105** (-2.15)	-0.098** (-1.99)	-0.097** (-1.99)
N	52,136	52,136	52,136	52,136	52,136	52,136
R <sup>2</sup>	0.048	0.048	0.048	0.048	0.048	0.048
Includes year dummies?	Yes	Yes	Yes	Yes	Yes	Yes

**Table 10: Mutual fund flows by distribution channel, continued**  
**Panel B: Interpretation of dummy variables**

<b>Dependent variable:</b>	<b>All</b>	<b>Break out</b>	<b>Rev share</b>	<b>Rev share</b>	<b>Affiliated</b>	<b>Affiliated</b>
<b>p-values for differences in</b>	<b>(1)</b>	<b>inst.</b>	<b>dummy</b>	<b>interact</b>	<b>dummy</b>	<b>interact</b>
<b>variables</b>		<b>(2)</b>	<b>(3)</b>	<b>(4)</b>	<b>(5)</b>	<b>(6)</b>
Broker sold = institutional (p-value from F-test)	(0.87)					
Broker sold = Inst w/broker? (p-value from F-test)		(0.95)	(0.80)		(0.98)	
Broker sold = Inst w/direct? (p-value from F-test)		(0.03)**	(0.01)***		(0.03)**	
Broker sold = Inst w/singleton? (p-value from F-test)		(0.33)	(0.87)		(0.25)	
Inst. w/ broker = Inst w/direct? (p-value from F-test)		(0.03)**	(0.01)***		(0.03)**	
Inst w/ broker = Inst w/singleton? (p-value from F-test)		(0.33)	(0.99)		(0.23)	
Inst w/ direct = Inst w/singleton? (p-value from F-test)		(0.01)***	(0.01)***		(0.01)***	
<b>Interaction variables, difference and p-value from t-test</b>						
Inst broker sold and revenue share vs direct retail (rev +inst broker sold + interaction)				0.152** (0.02)		
Inst broker sold and revenue share – Inst broker sold and not revenue share (rev + interaction)				0.241*** (0.01)		
Inst broker sold and affiliated less direct retail (affil +inst broker sold + interaction)						-0.112 (0.15)
Inst broker sold and affil. – Inst broker sold and not affil. (affil + interaction)						-0.149* (0.09)

**Table 11: Mutual fund performance by distribution channel**

Panel A performs OLS regressions of four mutual fund performance measures on indicator variables representing different fund distribution channels. The regressions are performed at the share class level, aggregating all fund share classes in each fund portfolio for each distribution channel. The missing channel indicator variable is direct-sold retail. The dependent variables include annualized net alpha, annualized gross alpha, net value added, and gross value added (all using 11 Vanguard funds as the benchmark). Regressions also include control variables: lagged share class size (log), lagged share class dollar flows, lagged expense ratio, lagged turnover ratio, the lagged log of fund age, the lagged log of the size of the assets under management at the fund family, style dummies, and year dummies. The missing style dummy is domestic equity and the missing year dummy is 2004. Panel B performs similar regressions for the subset of fund portfolios that have an institutional share class. The regressions include a dummy variable for whether the fund portfolio is also offered through the direct sold channel and a dummy for whether the portfolio is only offered through the institutional channel. The missing channel is the institutional share class that also has a direct sold share class. All regressions cluster the standard errors by fund portfolio and by year. The table also reports p-values for tests of differences between coefficients on distribution channel dummies. t-statistics are reported below the coefficients in parentheses. Significance is reported with \*\*\*, \*\*, and \* for the 1%, 5%, and 10% levels respectively. All variables except indicators are winsorized.

**Panel A: All Funds**

<b>Dependent variable:</b>	<b>Annual gross Vanguard alpha</b>	<b>Annual net Vanguard alpha</b>	<b>Gross value added</b>	<b>Net value added</b>
<b>Dist. channel dummies</b>				
Broker sold retail dummy	-0.520*** (-5.52)	-0.525*** (-5.52)	-4.294*** (-4.20)	-4.163*** (-5.06)
Institutional dummy	-0.189** (-2.34)	-0.183** (-2.27)	-4.694*** (-4.75)	-3.084*** (-3.82)
<b>Control variables</b>				
Lagged log of size	-0.144*** (-7.05)	-0.143*** (-6.96)	4.538*** (11.61)	0.325 (1.11)
Lagged dollar flows	0.000 (-0.73)	0.000 (-0.66)	0.001 (0.13)	-0.003 (-0.84)
Lagged expense ratio	0.455*** (3.63)	-0.517*** (-4.07)	-0.149 (-0.16)	-1.401** (-1.99)
Lagged turnover ratio	-0.001 (-0.37)	-0.001 (-0.29)	-0.029 (-1.08)	-0.020 (-0.84)
Lagged log of age	0.180*** (4.10)	0.173*** (3.91)	0.786** (2.08)	0.467 (1.35)
Lagged log of family size	0.140*** (7.24)	0.147*** (7.57)	0.799*** (6.00)	0.477*** (4.30)
Foreign equity style dummy	0.312*** (3.17)	0.308*** (3.12)	3.651*** (3.93)	2.620*** (3.71)
Balanced style dummy	-0.112 (-1.11)	-0.112 (-1.11)	1.619 (0.80)	0.294 (0.21)
N	57,743	57,743	57,743	57,743
R <sup>2</sup>	0.010	0.013	0.045	0.010
Includes year dummies?	Yes	Yes	Yes	Yes
Broker sold = Institutional?	0.000***	0.000***	0.551	0.027**



**Table 11: Mutual fund performance by distribution channel, continued**  
**Panel B: All funds, with institutional funds disaggregated**

<b>Dependent variable:</b>	<b>Annual gross Vanguard</b>	<b>Annual net Vanguard alpha</b>	<b>Gross value added</b>	<b>Net value added</b>
<b>Dist. channel dummies</b>				
Broker sold retail dummy	-0.530*** (-5.52)	-0.536*** (-5.53)	-4.418*** (-4.28)	-4.278*** (-5.14)
Institutional; has broker sold	-0.66*** (-2.89)	-0.263*** (-2.85)	-5.520*** (-5.10)	-3.839*** (-4.28)
Institutional; has direct sold	0.331** (2.23)	0.345** (2.32)	-2.599** (-2.55)	-1.380* (-1.75)
Institutional; singleton	-0.219* (-1.85)	-0.207* (-1.75)	-3.212*** (-2.65)	-1.621* (-1.64)
<b>Control variables</b>				
Lagged log of size	-0.149*** (-7.14)	-0.148*** (-7.06)	4.488*** (11.43)	0.280 (0.95)
Lagged dollar flows	0.000 (-0.70)	0.000 (-0.63)	0.001 (0.14)	-0.003 (-0.83)
Lagged expense ratio	0.458*** (3.67)	-0.513*** (-4.05)	-0.005 (-0.01)	-1.264* (-1.82)
Lagged turnover ratio	-0.001 (-0.36)	-0.001 (-0.28)	-0.027 (-1.01)	-0.018 (-0.77)
Lagged log of age	0.189** (4.24)	0.182*** (4.06)	0.872** (2.29)	0.546 (1.56)
Lagged log of family size	0.147*** (7.40)	0.154*** (7.74)	0.871*** (6.15)	0.543*** (4.57)
Foreign eq. style dummy	0.309*** (3.12)	0.304*** (3.07)	3.509*** (3.76)	2.483*** (3.51)
Balanced style dummy	-0.106 (-1.05)	-0.106 (-1.05)	1.701 (0.84)	0.370 (0.26)
N	57,743	57,743	57,743	57,743
R <sup>2</sup>	0.010	0.013	0.045	0.010
Includes year dummies?	Yes	Yes	Yes	Yes
Broker sold = Inst w/broker?	0.00***	0.00***	0.11	0.39
Broker sold = Inst w/direct?	0.00***	0.00***	0.08*	0.00***
Broker sold = Inst w/singleton?	0.02**	0.01**	0.27	0.00***
Inst. w/ broker = Inst w/direct?	0.00***	0.00**	0.00***	0.00***
Inst w/ broker = Inst w/singleton?	0.68	0.63	0.01***	0.01***
Inst w/ direct = Inst w/singleton?	0.00***	0.00***	0.60	0.80

**Table 11, Mutual fund performance by distribution channel, continued**  
**Panel C: Includes revenue sharing dummy and interaction variable**

	Annual gross Vanguard alpha		Annual net Vanguard alpha		Gross value added		Net value added	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Revenue share dummy	-0.207** (-2.01)	-0.130 (-1.25)	-0.212** (-2.05)	-0.134 (-1.27)	-1.387 (-1.33)	-0.911 (-0.68)	-2.544*** (-2.98)	-3.158*** (-2.98)
<b>Dist. channel</b>								
Broker sold retail	-0.458*** (-4.42)	-0.489*** (-4.71)	-0.462*** (-4.42)	-0.494*** (-4.71)	-3.937*** (-4.12)	-4.129*** (-4.39)	-3.394*** (-4.39)	-3.145*** (-4.09)
Institutional; has broker sold retail	-0.181* (-1.78)	-0.124 (-1.18)	-0.177* (-1.73)	-0.118 (-1.12)	-4.953*** (-4.55)	-4.600*** (-4.28)	-2.800*** (-3.15)	-3.257*** (-3.67)
Inst; has broker x rev. share dummy		-0.194** (-2.19)		-0.197** (-2.23)		-1.199 (-1.00)		1.550* (1.76)
Institutional; has direct	0.335** (2.26)	0.334** (2.25)	0.349** (2.35)	0.348** (2.34)	-2.572** (-2.53)	-2.580** (-2.54)	-1.330* (-1.68)	-1.319* (-1.67)
Institutional; singleton	-0.221* (-1.87)	-0.222* (-1.88)	-0.209* (-1.77)	-0.210* (-1.78)	-3.227** (-2.66)	-3.234** (-2.67)	-1.647* (-1.67)	-1.639* (-1.66)
<b>Control variables</b>								
Lagged log size	-0.148*** (-7.10)	-0.150*** (-7.15)	-0.147*** (-7.02)	-0.148*** (-7.08)	4.496*** (11.43)	4.488*** (11.43)	0.293 (0.99)	0.303 (1.02)
Lagged dollar flows	0.000 (-0.76)	0.000 (-0.71)	0.000 (-0.69)	0.000 (-0.63)	0.001 (0.14)	0.001 (0.14)	-0.003 (-0.85)	-0.003 (-0.86)
Lagged expense ratio	0.471*** (3.77)	0.467*** (3.72)	-0.499*** (-3.94)	-0.504*** (-3.97)	0.081 (0.09)	0.051 (0.05)	-1.106 (-1.59)	-1.067 (-1.53)
Lagged turnover ratio	-0.001 (-0.37)	-0.001 (-0.37)	-0.001 (-0.29)	-0.001 (-0.29)	-0.027 (-1.02)	-0.027 (-1.02)	-0.019 (-0.79)	-0.019 (-0.79)
Lagged log age	0.188*** (4.22)	0.189*** (4.23)	0.181*** (4.03)	0.181*** (4.05)	0.865** (2.28)	0.869** (2.29)	0.532 (1.53)	0.527 (1.51)
Lagged log family size	0.160*** (7.78)	0.159*** (7.73)	0.168*** (8.11)	0.167*** (8.06)	0.958*** (5.98)	0.952*** (5.90)	0.703*** (5.17)	0.711*** (5.20)
Foreign equity style	0.310*** (3.13)	0.311*** (3.14)	0.305*** (3.08)	0.306*** (3.08)	3.516*** (3.76)	3.518*** (3.76)	2.497*** (3.52)	2.494*** (3.52)
Balanced style dummy	-0.097 (-0.96)	-0.098 (-0.97)	-0.097 (-0.96)	-0.098 (-0.97)	1.761 (0.87)	1.754 (0.86)	0.480 (0.33)	0.489 (0.34)
N	57,743	57,743	57,743	57,743	57,743	57,743	57,743	57,743
R <sup>2</sup>	0.010	0.010	0.013	0.013	0.045	0.045	0.010	0.010
Includes yr. dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Inst broker sold and revenue share vs direct retail (rev +inst broker sold + interaction)		-0.448*** (-3.88)		-0.450** (-4.48)		-6.710*** (-5.18)		-4.865*** (-4.17)
Inst broker sold and revenue share – Inst broker sold and not revenue share (rev + interaction)		-0.324*** (-2.66)		-0.331*** (-3.53)		-2.110** (-2.35)		-1.608** (-2.09)

**Table 11, Mutual fund performance by distribution channel, continued**  
**Panel D: Includes affiliated fund dummy and interaction variable**

	Annual gross Vanguard alpha		Annual net Vanguard alpha		Gross value added		Net value added	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Affil. w dual-registrant	-0.205** (-1.94)	-0.233** (-2.28)	-0.206** (-1.95)	-0.235*** (-2.29)	-1.760** (-2.08)	-2.284** (-2.17)	-1.419** (-2.09)	-1.880** (-2.26)
Affil w ind. RIA	0.138 (0.66)	0.138 (0.67)	0.141 (0.68)	0.141 (0.68)	0.376 (0.23)	0.386 (0.24)	-0.658 (-0.46)	-0.650 (-0.45)
<b>Dist. channel</b>								
Broker sold retail	-0.506*** (-5.26)	-0.503*** (-5.25)	-0.512*** (-5.27)	-0.509*** (-5.26)	-4.216*** (-4.07)	-4.161*** (-4.03)	-4.115*** (-4.97)	-4.067*** (-4.94)
Institutional; has broker sold retail	-0.242*** (-2.62)	-0.258*** (-2.68)	-0.239*** (-2.59)	-0.255*** (-2.65)	-5.308*** (-4.90)	-5.616*** (-4.96)	-3.663*** (-4.08)	-3.934*** (-4.19)
Inst; has broker x affil. w/dual dummy		0.091 (0.80)		0.094 (0.82)		1.741 (1.62)		1.533* (1.83)
Institutional; has direct	0.345** (2.31)	0.348** (2.34)	0.358** (2.40)	0.362** (2.43)	-2.442** (-2.39)	-2.377** (-2.33)	-1.203 (-1.52)	-1.146 (-1.45)
Institutional; singleton	-0.214* (-1.81)	-0.212* (-1.80)	-0.202* (-1.71)	-0.200* (-1.70)	-3.177** (-2.62)	-3.152** (-2.60)	-1.600 (-1.62)	-1.579 (-1.60)
<b>Control variables</b>								
Lagged log size	-0.151*** (-7.22)	-0.151*** (-7.22)	-0.149*** (-7.14)	-0.149*** (-7.14)	4.475*** (11.42)	4.475*** (11.42)	0.269 (0.91)	0.269 (0.91)
Lagged dollar flows	0.000 (-0.67)	0.000 (-0.67)	0.000 (-0.59)	0.000 (-0.59)	0.001 (0.15)	0.001 (0.15)	-0.003 (-0.83)	-0.003 (-0.83)
Lagged expense ratio	0.458*** (3.66)	0.460*** (3.67)	-0.513*** (-4.04)	-0.511*** (-4.03)	-0.016 (-0.02)	0.007 (0.01)	-1.285* (-1.85)	-1.264* (-1.82)
Lagged turnover ratio	-0.001 (-0.36)	-0.001 (-0.36)	-0.001 (-0.28)	-0.001 (-0.28)	-0.027 (-1.01)	-0.027 (-1.02)	-0.018 (-0.76)	-0.018 (-0.77)
Lagged log age	0.190*** (4.26)	0.190*** (4.27)	0.183*** (4.08)	0.183*** (4.08)	0.877** (2.31)	0.884** (2.32)	0.545 (1.56)	0.551 (1.58)
Lagged log family size	0.149*** (7.50)	0.149*** (7.50)	0.156*** (7.83)	0.156*** (7.83)	0.887*** (6.20)	0.891*** (6.21)	0.557*** (4.67)	0.561*** (4.68)
Foreign equity style	0.316*** (3.20)	0.316*** (3.20)	0.311*** (3.14)	0.311*** (3.14)	3.562*** (3.81)	3.561*** (3.81)	2.516*** (3.56)	2.516*** (3.56)
Balanced style dummy	-0.106 (-1.05)	-0.107 (-1.06)	-0.106 (-1.05)	-0.107 (-1.06)	1.701 (0.84)	1.688 (0.84)	0.372 (0.26)	0.360 (0.25)
N	57,743	57,743	57,743	57,743	57,743	57,743	57,743	57,743
R <sup>2</sup>	0.011	0.010	0.014	0.013	0.045	0.045	0.010	0.010
Includes yr. dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Inst broker sold and affiliated less direct retail (affil +inst broker sold + interaction)		-0.399** (-2.58)		-0.396** (-2.55)		-6.158*** (-5.28)		-4.282*** (-4.45)
Inst broker sold and affil. – Inst broker sold and not affil. (affil + interaction)		-0.141 (-0.95)		-0.140 (-0.94)		-0.543 (-0.69)		-0.348 (-0.54)

**Table 12: Mutual fund performance by distribution channel, robustness tests**

Panel A performs OLS regressions of mutual fund performance measures on indicator variables representing different fund distribution channels. The regressions are performed at the share class level, aggregating all fund share classes in each fund portfolio for each distribution channel. The missing channel indicator variable is direct-sold retail. The dependent variables include annualized gross and net one and four-factor alphas. Regressions also include control variables: lagged share class size (log), lagged share class dollar flows, lagged expense ratio, lagged turnover ratio, the lagged log of fund age, the lagged log of the size of the assets under management at the fund family, style dummies, and year dummies. The missing style dummy is domestic equity and the missing year dummy is 2004. Panel B performs similar regressions for the subset of fund portfolios that have an institutional share class. The regressions include a dummy variable for whether the fund portfolio is also offered through the direct sold channel and a dummy for whether the portfolio is only offered through the institutional channel. The missing channel is the institutional share class that also has a direct sold share class. All regressions cluster the standard errors by fund portfolio and by year. The table also reports p-values for tests of differences between coefficients on distribution channel dummies. t-statistics are reported below the coefficients in parentheses. Significance is reported with \*\*\*, \*\*, and \* for the 1%, 5%, and 10% levels respectively. All variables except indicators are winsorized.

**Panel A: All Funds**

<b>Dependent variable:</b>	<b>Annual gross one factor alpha</b>	<b>Annual net one factor alpha</b>	<b>Annual gross four factor alpha</b>	<b>Annual net four factor alpha</b>
<b>Dist. channel dummies</b>				
Broker sold retail dummy	-0.494*** (-4.18)	-0.377*** (-3.18)	-0.419*** (-4.04)	-0.302*** (-2.89)
Institutional dummy	-0.032 (-0.30)	-0.255** (-2.37)	-0.048 (-0.50)	-0.269*** (-2.81)
<b>Control variables</b>				
Lagged log of size	-0.186*** (-6.43)	-0.177*** (-6.11)	-0.152*** (-5.90)	-0.143*** (-5.54)
Lagged dollar flows	0.001*** (5.42)	0.001*** (5.45)	0.001*** (4.60)	0.001*** (4.66)
Lagged expense ratio	0.799*** (4.96)	-0.134 (-0.83)	0.602*** (4.29)	-0.331** (-2.34)
Lagged turnover ratio	-0.007 (-1.34)	-0.007 (-1.33)	-0.007 (-1.53)	-0.007 (-1.52)
Lagged log of age	0.507*** (6.47)	0.468*** (5.96)	0.330*** (4.85)	0.292*** (4.28)
Lagged log of family size	0.224*** (8.54)	0.229*** (8.71)	0.182*** (7.89)	0.187*** (8.09)
Foreign equity style dummy	-2.388*** (-15.64)	-2.385*** (-15.60)	-2.750*** (-20.44)	-2.746*** (-20.39)
Balanced style dummy	0.425*** (3.29)	0.395*** (3.58)	0.118 (1.03)	0.089 (0.77)
N	54,371	54,371	54,371	57,371
R <sup>2</sup>	0.146	0.143	0.123	0.122
Includes year dummies?	Yes	Yes	Yes	Yes
Broker sold = Institutional?	0.000***	0.252	0.000***	0.724

**Table 12: Mutual fund performance by distribution channel, continued**  
**Panel B: All funds, with institutional funds disaggregated**

<b>Dependent variable:</b>	<b>Annual gross one factor alpha</b>	<b>Annual net one factor alpha</b>	<b>Annual gross four factor alpha</b>	<b>Annual net four factor alpha</b>
<b>Dist. channel dummies</b>				
Broker sold retail dummy	-0.507*** (-4.21)	-0.401*** (-3.32)	-0.433*** (-4.09)	-0.238*** (-3.08)
Institutional; has broker sold	-0.0124 (-1.04)	-0.413*** (-3.46)	-0.149 (-1.39)	-0.438*** (-4.06)
Institutional; has direct sold	0.443** (2.17)	0.280 (1.37)	0.387** (2.15)	0.230 (1.28)
Institutional; singleton	0.017 (0.09)	-0.009 (-0.05)	0.056 (0.32)	0.032 (0.18)
<b>Control variables</b>				
Lagged log of size	-0.193*** (-6.60)	-0.187*** (-6.42)	-0.159*** (-6.10)	-0.154*** (-5.90)
Lagged dollar flows	0.001*** (5.43)	0.001*** (5.48)	0.001*** (4.63)	0.001*** (4.70)
Lagged expense ratio	0.809*** (5.01)	-0.109 (-0.67)	0.615*** (4.39)	-0.301** (-2.13)
Lagged turnover ratio	-0.007 (-1.32)	-0.001 (-1.26)	-0.007 (-1.49)	-0.007 (-1.42)
Lagged log of age	0.519*** (6.60)	0.484*** (6.13)	0.342*** (5.00)	0.307*** (4.49)
Lagged log of family size	0.232*** (8.69)	0.244*** (9.09)	0.191*** (8.17)	0.203*** (8.62)
Foreign eq. style dummy	-2.397*** (-15.59)	-2.409*** (-15.67)	-2.762*** (-20.40)	-2.774*** (-20.48)
Balanced style dummy	0.432*** (3.33)	0.409*** (3.14)	0.126 (1.10)	0.104 (0.90)
N	54,371	54,371	54,371	54,371
R <sup>2</sup>	0.146	0.143	0.123	0.123
Includes year dummies?	Yes	Yes	Yes	Yes
Broker sold = Inst w/broker?	0.00***	0.90	0.00***	0.22
Broker sold = Inst w/direct?	0.00***	0.00***	0.00***	0.00***
Broker sold = Inst w/singleton?	0.01**	0.06*	0.01***	0.05**
Inst. w/ broker = Inst w/direct?	0.02**	0.00**	0.01***	0.00***
Inst w/ broker = Inst w/singleton?	0.46	0.04**	0.24	0.01***
Inst w/ direct = Inst w/singleton?	0.11	0.28	0.17	0.41

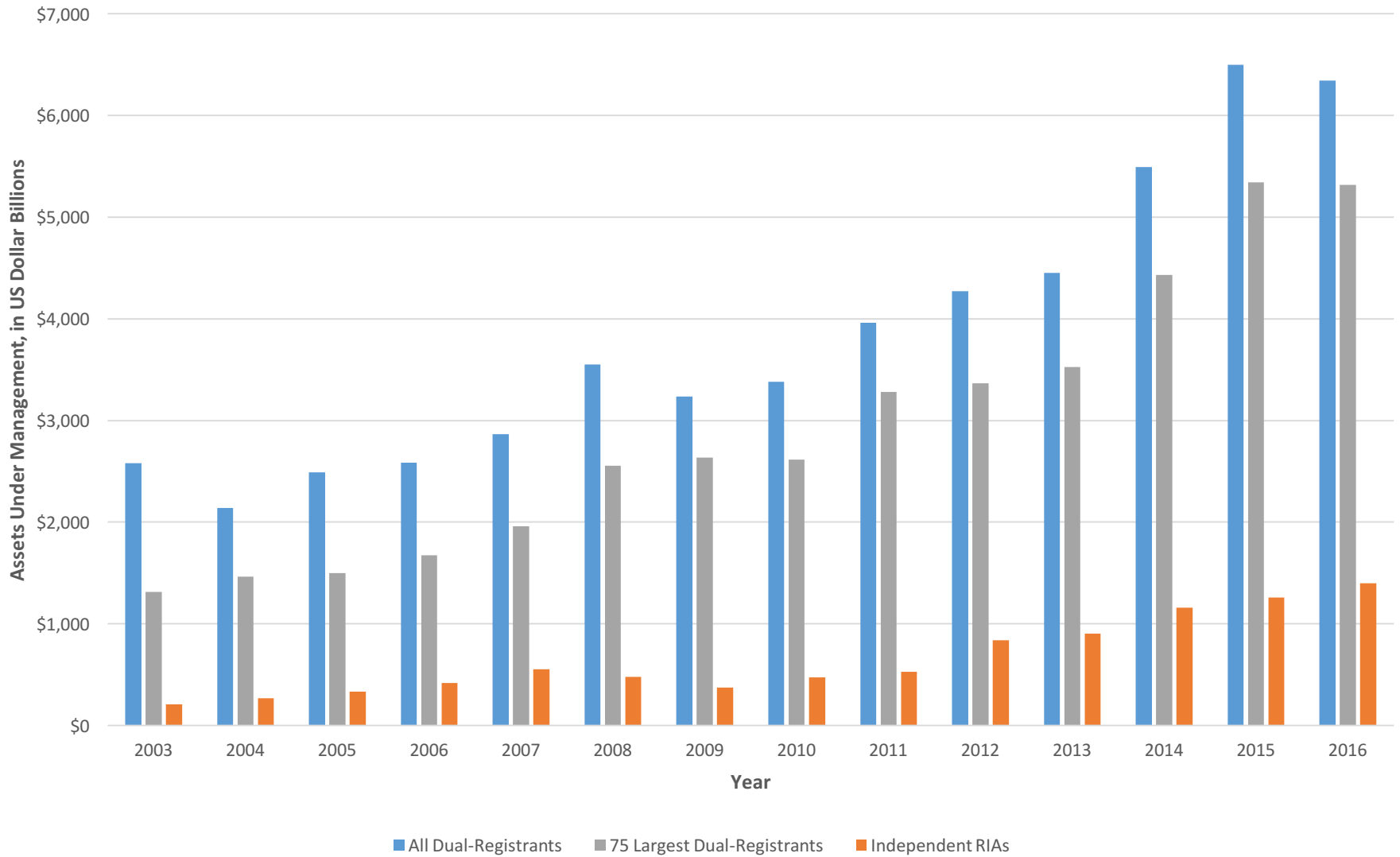
**Table 12, Mutual fund performance by distribution channel, continued**  
**Panel C: Includes revenue sharing dummy and interaction variable**

	Annual gross one factor alpha		Annual net one factor alpha		Annual gross four factor alpha		Annual net four factor alpha	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Revenue share dummy	-0.286** (-1.95)	-0.239 (-1.62)	-0.324** (-2.21)	-0.245* (-1.66)	-0.324** (-2.21)	-0.118 (-0.92)	-0.266** (-2.05)	-0.123 (-0.96)
<b>Dist. channel</b>								
Broker sold retail	-0.407*** (-3.08)	-0.426*** (-3.22)	-0.288** (-2.17)	-0.320** (-2.41)	-0.353*** (-3.04)	-0.399*** (-3.45)	-0.234** (-2.01)	-0.293** (-2.52)
Institutional; has broker sold retail	-0.005 (-0.04)	0.030 (0.21)	-0.279** (-2.09)	-0.220 (-1.56)	-0.054 (-0.45)	0.029 (0.23)	-0.327*** (-2.74)	-0.221* (-1.76)
Inst; has broker x rev. share dummy		-0.119 (-0.98)		-0.198* (-1.63)		-0.281*** (-2.77)		-0.360*** (-3.54)
Institutional; has direct	0.450** (2.20)	0.449** (2.20)	0.289 (1.41)	0.287 (1.40)	0.393** (2.19)	0.391** (2.17)	0.237 (1.31)	0.234 (1.30)
Institutional; singleton	0.013 (0.07)	-0.013 (0.07)	-0.012 (-0.06)	-0.014 (-0.07)	0.054 (0.31)	0.051 (0.30)	0.029 (0.17)	0.027 (0.15)
<b>Control variables</b>								
Lagged log size	-0.191*** (-6.53)	-0.192*** (-6.54)	-0.185*** (-6.34)	-0.186*** (-6.37)	-0.158*** (-6.04)	-0.159*** (-6.10)	-0.152*** (-5.83)	-0.154*** (-5.91)
Lagged dollar flows	0.001*** (5.40)	0.001*** (5.42)	0.001*** (5.45)	0.001*** (5.47)	0.001*** (4.59)	0.001*** (4.64)	0.001*** (4.66)	0.001*** (4.73)
Lagged expense ratio	0.828*** (5.12)	0.825*** (5.10)	-0.086 (-0.53)	-0.092 (-0.56)	0.631*** (4.50)	0.624*** (4.44)	-0.283** (-2.00)	-0.292** (-2.07)
Lagged turnover ratio	-0.007 (-1.33)	-0.007 (-1.33)	-0.007 (-1.27)	-0.007 (-1.27)	-0.007 (-1.50)	-0.007 (-1.50)	-0.007 (-1.43)	-0.007 (-1.43)
Lagged log age	0.518*** (6.58)	0.518*** (6.58)	0.482*** (6.12)	0.483*** (6.12)	0.341*** (4.98)	0.341*** (4.99)	0.306*** (4.47)	0.307*** (4.49)
Lagged log family size	0.251*** (8.98)	0.250*** (8.95)	0.264*** (9.44)	0.263*** (9.40)	0.206*** (8.50)	0.205*** (8.44)	0.220*** (9.03)	0.218*** (8.95)
Foreign equity style	-2.395*** (-15.58)	-2.395*** (-15.57)	-2.408*** (-15.65)	-2.407*** (-15.64)	-2.761*** (-20.39)	-2.760*** (-20.37)	-2.773*** (-20.47)	-2.772*** (-20.45)
Balanced style dummy	0.446*** (3.42)	0.445*** (3.42)	0.424*** (3.25)	0.423*** (3.24)	0.137 (1.19)	0.135 (1.17)	0.117 (1.01)	0.115 (0.99)
N	54,371	57,371	54,371	54,371	54,371	54,371	54,371	54,371
R <sup>2</sup>	0.146	0.146	0.144	0.144	0.123	0.123	0.123	0.123
Includes yr. dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Inst broker sold and revenue share vs direct retail (rev +inst broker sold + interaction)		-0.328** (-2.13)		-0.664*** (-4.29)		-0.370*** (-2.65)		-0.704*** (-5.02)
Inst broker sold and revenue share – Inst broker sold and not revenue share (rev + interaction)		-0.357** (-2.06)		-0.443** (-2.56)		-0.399*** (-2.59)		-0.483*** (-3.13)

**Table 12, Mutual fund performance by distribution channel, continued**  
**Panel D: Includes affiliated fund dummy and interaction variable**

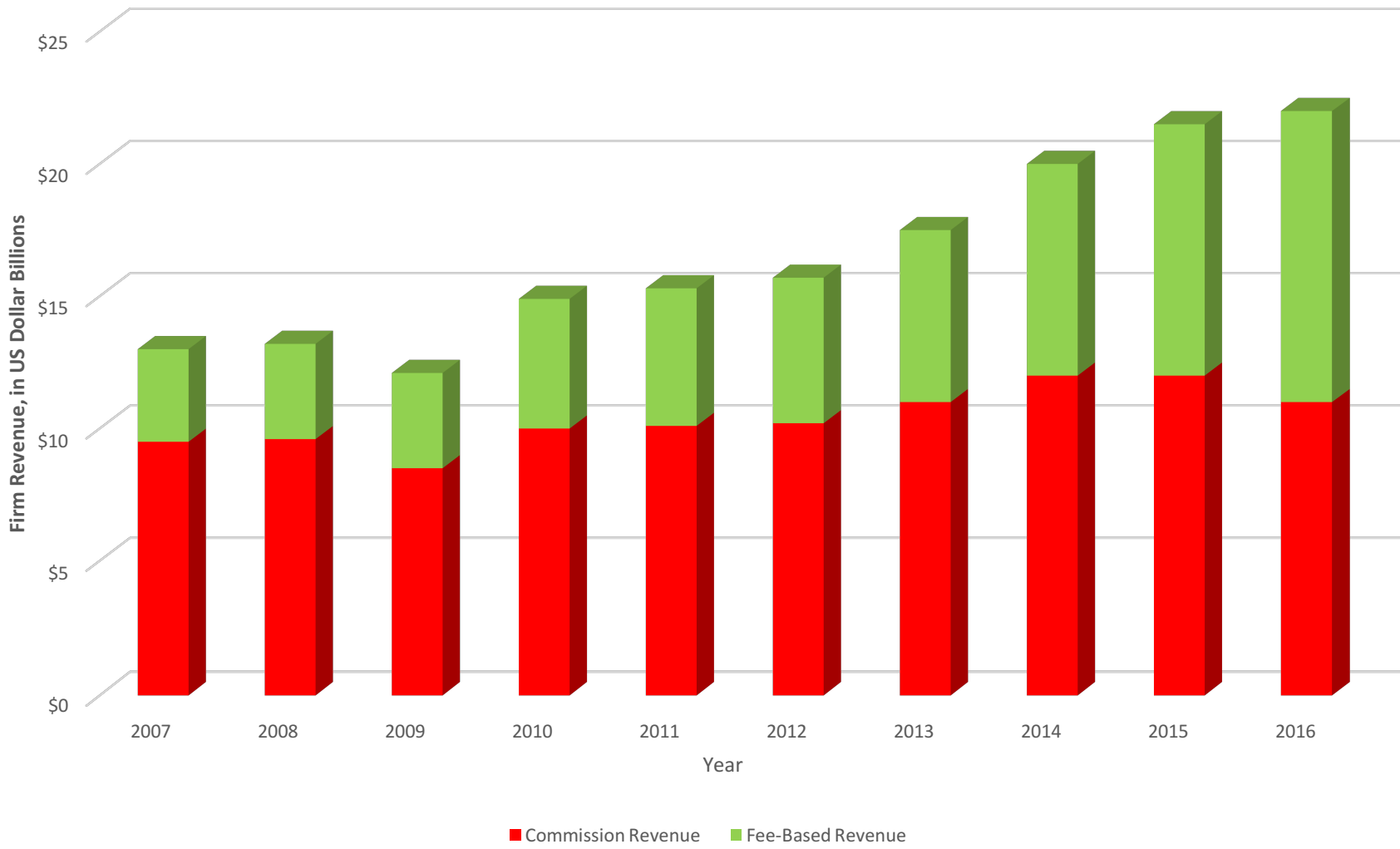
	Annual gross one factor alpha		Annual net one factor alpha		Annual gross four factor alpha		Annual net four factor alpha	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Affil. w dual-registrant	-0.015 (-0.10)	-0.043 (-0.30)	-0.028 (-0.20)	-0.048 (-0.34)	-0.093 (-0.72)	-0.114 (-0.89)	-0.108 (-0.83)	-0.120 (-0.93)
Affil. w ind. RIA	0.361 (1.32)	0.362 (1.32)	0.363 (1.31)	0.363 (1.31)	0.268 (1.06)	0.268 (1.06)	0.270 (1.06)	0.270 (1.06)
<b>Dist. channel</b>								
Broker sold retail	-0.505*** (-4.14)	-0.502*** (-4.12)	-0.398*** (-3.25)	-0.396*** (-3.24)	-0.423*** (-3.95)	-0.420*** (-3.94)	-0.315*** (-2.94)	-0.314*** (-2.93)
Institutional; has broker sold retail	-0.124 (-1.03)	-0.141 (-1.13)	-0.412*** (-3.41)	-0.423*** (-3.40)	-0.139 (-1.28)	-0.152 (-1.34)	-0.426*** (-3.91)	-0.433*** (-3.83)
Inst; has broker x affil. w/dual dummy		0.094 (0.54)		0.067 (0.38)		0.071 (0.50)		0.042 (0.29)
Institutional; has direct	0.435** (2.08)	0.29** (2.10)	0.263 (1.28)	0.266 (1.30)	0.382** (2.11)	0.385** (2.13)	0.226 (1.25)	0.228 (1.26)
Institutional; singleton	0.021 (0.11)	0.022 (0.11)	-0.005 (-0.03)	-0.004 (-0.02)	0.060 (0.34)	0.061 (0.35)	0.036 (0.21)	0.037 (0.21)
<b>Control variables</b>								
Lagged log size	-0.192*** (-6.59)	-0.193*** (-6.59)	-0.187*** (-6.41)	-0.187*** (-6.41)	-0.160*** (-6.12)	-0.160*** (-6.12)	-0.154*** (-5.92)	-0.154*** (-5.92)
Lagged dollar flows	0.001*** (5.45)	0.001*** (5.45)	0.001*** (5.50)	0.001*** (5.50)	0.001*** (4.65)	0.001*** (4.65)	0.001*** (4.72)	0.001*** (4.72)
Lagged expense ratio	0.814*** (5.05)	0.815*** (5.05)	-0.104 (-0.64)	-0.103 (-0.63)	0.618*** (4.41)	0.619*** (4.42)	-0.298** (-2.12)	-0.298** (-2.11)
Lagged turnover ratio	-0.007 (-1.31)	-0.007 (-1.31)	-0.007 (-1.25)	-0.007 (-1.26)	-0.007 (-1.49)	-0.007 (-1.49)	-0.007 (-1.42)	-0.007 (-1.42)
Lagged log age	0.522*** (6.63)	0.522*** (6.64)	0.486*** (6.17)	0.487*** (6.17)	0.344*** (5.03)	0.344*** (5.03)	0.309*** (4.52)	0.310*** (4.52)
Lagged log family size	0.232*** (8.68)	0.233*** (8.68)	0.244*** (9.08)	0.244*** (9.08)	0.192*** (8.18)	0.192*** (8.19)	0.203*** (8.64)	0.203*** (8.64)
Foreign equity style	-2.392*** (-15.54)	-2.392*** (-15.54)	-2.404*** (-15.61)	-2.404*** (-15.61)	-2.757*** (-20.33)	-2.757*** (-20.33)	-2.768*** (-20.41)	-2.768*** (-20.41)
Balanced style dummy	0.431*** (3.32)	0.431*** (3.31)	0.408*** (3.13)	0.407*** (3.12f)	0.125 (1.09)	0.125 (1.08)	0.104 (0.89)	0.104 (0.89)
N	54,371	54,371	54,371	54,371	54,371	54,371	54,371	54,371
R <sup>2</sup>	0.146	0.146	0.143	0.143	0.123	0.123	0.123	0.123
Includes yr. dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Inst broker sold and affiliated less direct retail (affil + inst broker sold + interaction)		-0.090 (-0.44)		-0.405* (-1.99)		-0.195 (-1.09)		-0.512*** (-2.84)
Inst broker sold and affil. – Inst broker sold and not affil. (affil + interaction)		0.051 (0.26)		0.018 (0.09)		-0.043 (-0.24)		-0.078 (-0.44)

**Figure 1: Regulatory Assets Under Management, in US Dollar Billions  
All Dual-Registrants, Top 75 Dual-Registrants, and Independent RIAs**

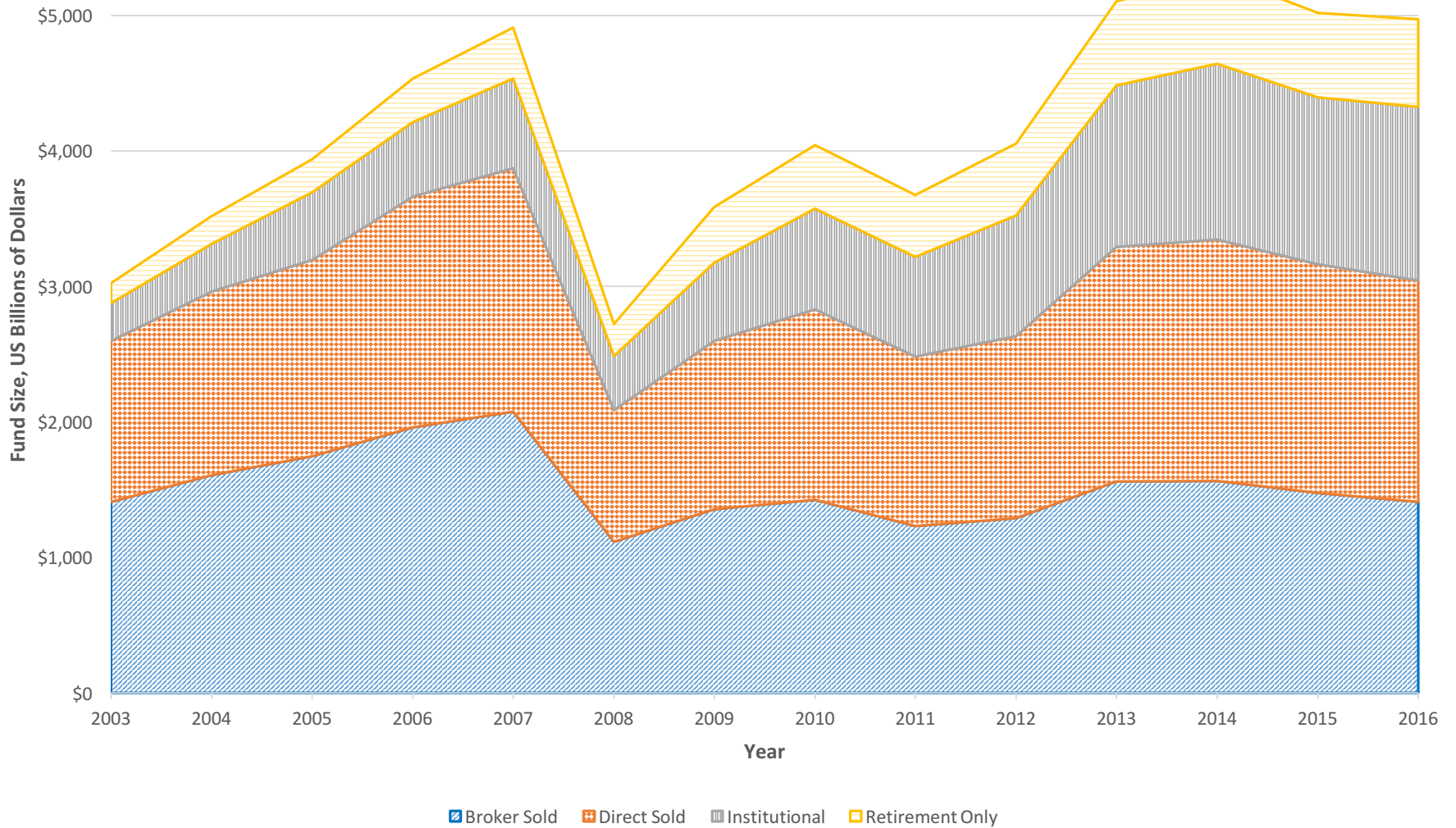




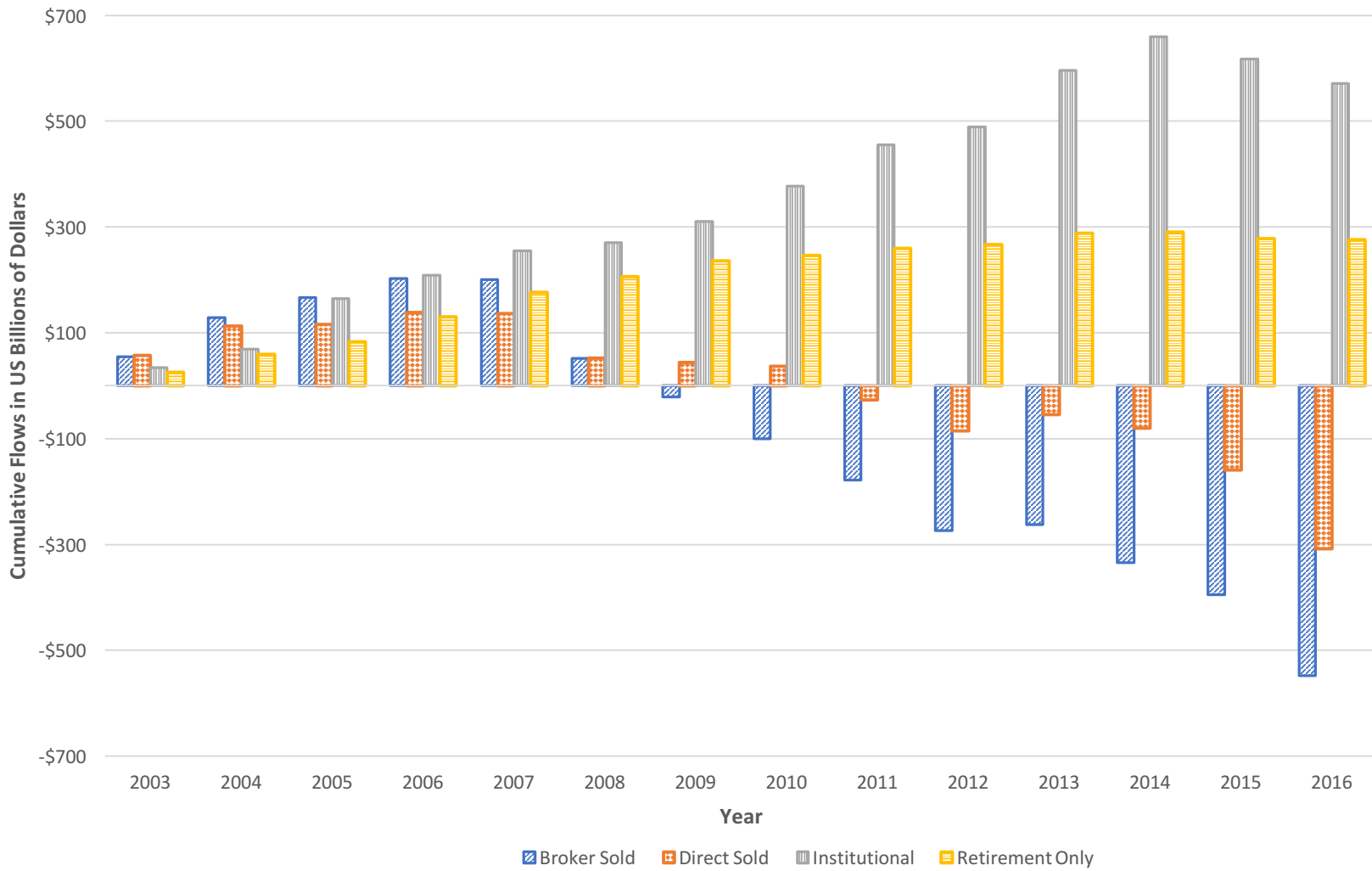
**Figure 2:**  
**Commission and Fee Based Revenues in US Dollar Billions, 2007-2016**  
 Based on *Financial Planning Survey of the Top Independent Broker-Dealers*



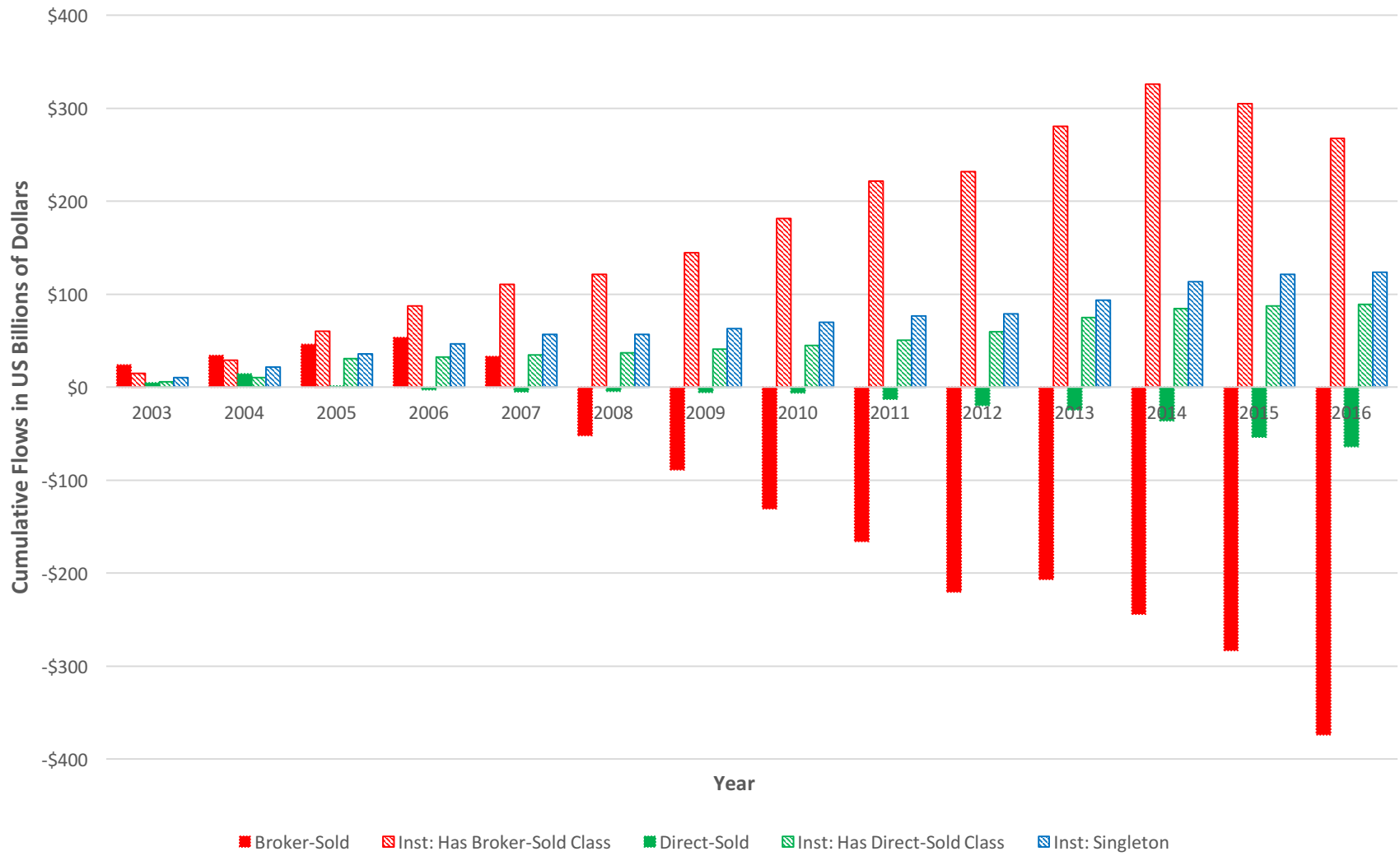
**Figure 4: Total Assets by Distribution Category**  
 In US Billions of Dollars, Adjusted for Inflation (Year 0 = 2003)



**Figure 5: Cumulative mutual fund flows by distribution channel, 2003-2016**  
**In US billions of dollars, adjusted for Inflation (Year 0 = 2003)**



**Figure 6:**  
**Retail and Institutional Portfolio Pairs: Cumulative Fund Flows, In US \$ Billions 2003-2016**  
**Adjusted for Inflation (Year 0 = 2003)**



## Appendix A: Description of variables

Variable name	Description	Data Source
<b>Assets and employees</b>		
Assets under management	Assets under management by RIA	Form ADV
Number of advisory clients	Number of advisory clients	Form ADV
Number individual clients	Estimated based on the midpoint of the stated range of individual clients that are not high net worth clients times the total number of advisor clients	Form ADV
Proportion of clients that are individuals	Estimated using midpoint of stated ranges of individual clients that are not high net worth clients; e.g. (1-10, 11-50)	Form ADV
Estimated total AUM for individuals	Estimated using midpoint of stated ranges of individual clients clients that are not high net worth clients multiplied by assets under management	Form ADV
Number of employees	Number of total employees, excluding clerical, administrative, and support	Form ADV
Number of investment adviser reps. (IARs)	Number of investment adviser representatives (registered with SEC as fiduciaries)	Form ADV
Number of registered representatives	Number of registered representatives (registered with FINRA as brokers)	Form ADV
Prop. of employees also insurance agents	Proportion of insurance agents scaled by total number of employees (available since 2011)	Form ADV
Number of clients per IAR	Total clients scaled by number of investment adviser representatives	Form ADV
<b>Firm characteristics</b>		
Dummy: PM of wrap program	Indicator variable set to 1 if the firm is the portfolio manager of a wrap fee program	Form ADV
Dummy: sponsors wrap program	Indicator variable set to 1 if the firm sponsors a wrap fee program	Form ADV
Dummy: offers financial planning (FP)	Indicator variable set to 1 if the firm provides financial planning services	Form ADV
Dummy: has zero FP clients	Indicator variable set to 1 if the firm has zero financial planning clients	Form ADV
Proportion of clients receiving FP	Proportion of financial planning clients divided by the total number of clients	Form ADV
<b>Disciplinary actions in past 10 years (dummy variable =1 if firm employs at least one), in percent</b>		
Dummy: Convicted felon	Indicator variable set to 1 if the firm has at least one adviser convicted of a felony	Form ADV
Dummy: Convicted of misdemeanor	Indicator variable set to 1 if the firm has at least one adviser convicted of a misdemeanor involving investments	Form ADV
Dummy: False statement to SEC/CFTC	Indicator variable set to 1 if the firm has at least one adviser that has made a false statement or omission	Form ADV
Dummy: Violate SEC/CFTC statutes	Indicator variable set to 1 if the firm has at least one adviser that has been involved in a violation of SEC or CFTC regulations or statutes	Form ADV
Dummy: SEC order against	Indicator variable set to 1 if the SEC or CTFC has entered an order against at least one adviser in connection with investment related activity	Form ADV

<b>Variable name</b>	<b>Description</b>	<b>Data Source</b>
Dummy: Court enjoined	Indicator variable set to 1 if a domestic or foreign court has enjoined at least one adviser in connection with any investment related activity	Form ADV
<b>RIA data from Form ADV Part 2</b>		
RIA start date	Date that the RIA registered with the SEC	Form ADV Part 2
Dummy: Accept retail clients	Indicator set to 1 if the RIA accepts retail clients with assets under \$100,000	Form ADV Part 2
Minimum investment, all firms (US \$)	Minimum required investment	Form ADV Part 2
Fee for > \$1MM AUM: Percent of AUM	Marginal fee as a percent of assets for assets > \$1,000,000. This is reported as the marginal fee, not the average fee.	Form ADV Part 2
Minimum investment if accept retail	Minimum required investment for the subset of firms that accept retail investors	Form ADV Part 2
Fee for <\$100K AUM: Percent of AUM	Marginal fee as a percent of assets for assets < \$100,000. This is reported as the marginal fee, not the average fee.	Form ADV Part 2
Dummy: Engages in revenue sharing	Indicator set to 1 if the firm reports that it participates in revenue sharing	Form ADV Part 2
Dummy: Offers limited number of mutual fund families	Indicator set to 1 if the firm provides access to a limited number of mutual fund families	Form ADV Part 2
Dummy: Offers only mutual funds that engage in revenue sharing	Indicator set to 1 if the firm only provides access to mutual funds that engage in revenue sharing	Form ADV Part 2
Dummy: Has preferred list of mutual funds	Indicator set to 1 if the firm ranks mutual funds on a preferred list, or offers different tiers of funds through advisers	Form ADV Part 2
Dummy: Has affiliated mutual funds	Indicator set to 1 if the firm advises or subadvises a mutual fund	Form ADV Part 2
Dummy: Affiliated mutual funds subject to reduced due diligence	Indicator set to 1 if the firm reports performing less due diligence on affiliated mutual funds relative to third party funds	Form ADV Part 2
Number ADV Part 2 firms with at least one disciplinary action	Number of ADV Part 2 firms that have at least one disciplinary action from the SEC, FINRA, or a state or other regulator	Form ADV Part 2
Number disciplinary actions in last 10 years	Conditional on having at least one disciplinary action, the number of disciplinary actions in the past 10 years	Form ADV Part 2
Total fines in last 10 years (\$)	Conditional on having at least one disciplinary action, the total fines related to disciplinary actions in the past 10 years	Form ADV Part 2
Fines associated with registered reps.	Total fines associated with the brokerage arm of the business	Form ADV Part 2
<b>Disciplinary action related to registered representatives</b>		
Dummy: Reg rep has conflict of interest	Indicator variable set to one if the firm was disciplined because a registered representative had a conflict of interest	Form ADV Part 2
Dummy: Reg rep misled investors	Indicator variable set to one if the firm was disciplined because a registered representative misled investors	Form ADV Part 2

<b>Variable name</b>	<b>Description</b>	<b>Data Source</b>
Dummy: Reg rep not properly supervised	Indicator variable set to one if the firm was disciplined because a registered representative was not properly supervised	Form ADV Part 2
<b>Disciplinary action related to registered representatives</b>		
Dummy: Improper data reporting or other internal control violation	Indicator variable set to one if the firm was disciplined because the brokerage side of the business reported improper data or had an internal control violation	Form ADV Part 2
Dummy: Reg rep overcharged mutual fund or variable annuity fees	Indicator variable set to one if the firm was disciplined because a registered representative overcharged clients mutual fund or variable annuity fees	Form ADV Part 2
Dummy: Reg rep traded ahead of clients	Indicator variable set to one if the firm was disciplined because a registered representative traded ahead of clients	Form ADV Part 2
Dummy: Reg rep engaged in market manipulation	Indicator variable set to one if the firm was disciplined because a registered representative engaged in market manipulation	Form ADV Part 2
Dummy: Data hack occurred	Indicator variable set to one if the firm was disciplined because the firm experienced a data hack	Form ADV Part 2
<b>Disciplinary action related to investment adviser representatives (IAR)</b>		
Fines associated with IARs	Total fines associated with the RIA arm of the business	Form ADV Part 2
Dummy: IAR has conflict of interest	Indicator variable set to 1 if an IAR has a conflict of interest	Form ADV Part 2
Dummy: IAR not properly supervised	Indicator variable set to 1 if the firm did not properly supervise an IAR	Form ADV Part 2
Dummy: IAR misled investors	Indicator variable set to 1 if an IAR misled investors	Form ADV Part 2
Dummy: IAR overcharged advisory fees	Indicator variable set to 1 if an IAR overcharged advisory fees	Form ADV Part 2
Dummy: IAR overcharged 12b-1 fees	Indicator variable set to 1 if an IAR overcharged 12b-1 fees	Form ADV Part 2
<b>Mutual fund data</b>		
AUM (\$ Million)	Assets under management in millions	CRSP
Net dollar flow (\$ Million)	$AUM_t - (AUM)_{t-1} \times (1+r)$	CRSP
Net percent flow (% of AUM)	$\text{Net dollar flow}/AUM_{t-1}$	CRSP
Fund age, years	Estimated based on fund start date	CRSP
Expense ratio (% of AUM)	Total fund expenses/AUM	CRSP
Turnover ratio (% of AUM)	Minimum (of aggregated sales or aggregated purchases of securities), divided by the average 12-month Total Net Assets of the fund	CRSP
Domestic equity dummy	Dummy set to 1 if firm is domestic equity style	CRSP
Balanced dummy	Dummy set to 1 if firm invests in both stocks and bonds in relatively similar proportions	CRSP
Foreign equity dummy	Dummy set to 1 if firm is foreign equity style	CRSP
Gross alpha (annual %)	Gross of fee return estimated using 11 Vanguard funds as a benchmark and rolling three year regressions	CRSP

<b>Variable name</b>	<b>Description</b>	<b>Data Source</b>
Net alpha (annual %)	Net of fee return estimated using 11 Vanguard funds as a benchmark and rolling three year regressions	CRSP
Gross value added (\$ millions)	Gross alpha times fund size	CRSP
Net value added (\$ millions)	Net alpha times fund size	CRSP



**Appendix B: Top revenue sharing families among dual registrants that disclose family names (must be disclosed by at least five dual registrants)**

<b>Fund family</b>	<b>Times named (total possible = 35)</b>
Oppenheimer	22
American Funds	20
Franklin Templeton	18
AIM/Invesco	15
Lord Abbett	15
Hartford	14
Fidelity	14
Pimco	13
JP Morgan	13
John Hancock	13
Blackrock	13
Federated Investors	12
MFS	11
Prudential Investments	11
Legg Mason/Western Asset Management	10
Principal Management Corp	10
Columbia	9
Putnam Investment Management	9
Allianz	8
Ivy Investment Management	8
Pioneer	8
Alliance	7
Eaton Vance	7
Russell Investment	7
Nuveen Advisory Corp	6
Thornburg	6
American Century	5
Mainstay Funds	5
Phoenix Investment	5
Transamerica Idex	5

## Appendix C

### Description of Share Class Categorization Method

Beginning with the CRSP Survivorship Bias Free Mutual Fund Database, I first select all actively-managed equity-based mutual funds for the period 2003-2016. These funds include the styles of domestic equity, foreign equity, and balanced funds (usually allocated approximately equally to stocks and bonds). I clean the data in a manner similar to Berk and van Binsbergen (2015). I drop funds of all other styles, including asset allocation funds that invest in other mutual funds (also known as target date funds or TDFs).

I next classify funds into distribution channels. For consistent channel classification, I use mutual fund prospectus data from the SEC website. I read each prospectus for each fund share class for each year and classify fund share classes as “broker sold retail,” “direct sold retail,” “institutional,” or “retirement only.” Broker sold retail funds have low minimum investments, few other restrictions, and brokerage commissions also known as loads, that range from 1% annually to a one-time commission of 5.75%. Direct sold retail funds have low minimum investments, few other restrictions, and brokerage commissions (12b-1 fees) of less than 0.25% per year.

To classify share classes as *institutional*, I create a standardized definition, requiring that the share class be either: a) restricted to certain eligible investors and/or b) have a minimum of at least \$100,000. These share classes attract true institutions like pensions and endowments, and are frequently also open to clients of investment advisers and retirement plans. Finally, to classify a share class as “retirement only” the share class must be restricted for sale to retirement plans.

My method significantly enhances the current CRSP approach of classifying share classes as either retail or institutional. My final sample includes 5,470 separate fund portfolios, representing 13,979 different share classes. Of the 5,470 portfolios, 827 have at least one class that is misclassified in CRSP as retail but is actually institutional, for a 15% error rate. Further, 483 portfolios are misclassified as institutional when they should be retail, an error rate of 9%, for a total error rate of 24% in CRSP. In addition to correcting these errors, I create the new share class category of retirement only. Of the 5,470 portfolios, 1,613 have a retirement share class. For the other three share classes, 3,106 portfolios have an institutional class, 2,839 have a broker sold class, and 2,198 have a direct sold class. Within the institutional class, I also collect detail about the types of investors permitted to invest in each share class (when disclosed in sufficient detail), as well as how both the eligible investors and minimum investment requirements change over time for each share class.