SEC Oversight of Private Equity and Hedge Funds

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Abstract

We examine the effects of Securities and Exchange Commission (SEC) oversight on private fund advisers. We propose that SEC investigations could improve advisers' disclosure and governance, facilitating advisers' fundraising. However, private fund investors may view investigations as negative signals, reducing fundraising ability, or may focus on private communication with advisers or attributes other than disclosure and governance, suggesting no effect of SEC oversight on fundraising. Consistent with benefits from SEC oversight, fundraising increases for investigated advisers following SEC investigations. Consistent with our proposed mechanisms, investigated advisers' governance over financial reporting and disclosure transparency both increase following investigations. Increases in fundraising concentrate in investigated advisers with improved disclosures. These results further concentrate in advisers that reduce their investors' required minimum investment following investigations, suggesting that an expanding investor base also drives results. Altogether, our evidence suggests that SEC investigations of advisers improve information for investors and facilitate capital formation. Our study provides new insight for regulators as they increasingly focus on private markets and contributes to the longstanding debate over regulation in private markets, especially as they open to a broader set of investors.

I. INTRODUCTION

A longstanding debate centers on whether private funds – including private equity and hedge funds – should face more regulatory oversight. Private funds control over $15 trillion in assets globally and are growing rapidly (e.g., McKinsey 2024; Reuters 2025), yet they are more opaque and less regulated than public firms or mutual funds. Unlike these other entities, private funds can communicate directly with investors, all of whom must meet requirements indicating a level of financial sophistication. As such, policymakers historically took the position that sophisticated private fund investors can evaluate investments without regulation (Atkins 2006). More recently, the Securities and Exchange Commission (SEC) has called for increased oversight of private funds to improve transparency and accountability, limit systemic risk, and ultimately protect investors (SEC 2023; Morgan Lewis 2025).[1] While prior research examines the SEC's role in regulating public firms and influencing corporate governance (e.g., Blackburne, Kepler, Quinn, and Taylor 2021; Holzman, Marshall, and Schmidt 2024), there is little evidence on the effects of SEC oversight on private funds. We provide initial insights on the effects of SEC investigations on private fund advisers, informing the debate over regulating private markets.

We examine three research questions regarding the effect of SEC *investigations* on private fund advisers.[2] First, we assess whether SEC investigations affect advisers' ability to fundraise. Second, we explore changes in advisers' disclosure and governance following SEC investigations.

[1] Highlighting the arguments in the debate over regulating private funds, in June 2024 the Fifth Circuit Court of Appeals struck down a new private fund regulation, finding that the regulation exceeded the SEC's statutory authority. While the SEC justified the new rules by arguing that "private funds play an increasingly significant role in retirement-planning for millions of Americans," indicating the SEC's revised views regarding regulating the private fund market, the court found that the statute underlying the rule covered only retail customers (Rudegeair and Wirz 2024).

[2] SEC oversight includes ex ante, preventative oversight and ex post, punitive oversight (Iselin, Johnson, Ott, and Raleigh 2024). The Division of Investment Management (equivalent to the Division of Corporate Finance for public firms) focuses on policy-making and preventative oversight of investment advisers, while the Division of Enforcement initiates investigations, enforces SEC rules, and takes legal action against violators. We focus on ex post investigative oversight from the Division of Enforcement, which is the only oversight activity currently observable in our setting.

To explore disclosure, we use a large language model (FinBERT; Huang et al. 2023) to assess changes in the quantity, tone, and content of advisers' SEC filing (Form ADV, Part 2) disclosures following an SEC investigation. To explore governance, we examine whether an adviser is more likely to engage a Big 4 auditor or obtain an internal controls audit following an SEC investigation. Third, we connect our first two research questions by examining whether changes in disclosure or governance following an SEC investigation lead to changes in advisers' fundraising ability.

These questions are important for several reasons. First, private fund advisers, or general partners (GPs), are financial intermediaries that raise capital from external investors, or limited partners (LPs). Because most funds have limited lives, advisers *must* periodically fundraise to remain in business (e.g., Metrick and Yasuda 2011; Arcot et al. 2015; Crain 2018). Because private funds are a significant source of capital for businesses (e.g., Witte and Brown 2019), understanding private funds' ability to raise capital is economically important. Second, as private markets have grown, and also expanded to a broader set of investors, the SEC has increased its regulatory oversight of private fund advisers (including private equity [e.g., buyout, venture capital, real estate, natural resources, infrastructure] and hedge fund advisers). In 2010, the SEC's Division of Enforcement established five specialized units. The biggest unit, in terms of staff, is the Asset Management Unit, focusing on investigations involving investment advisers, including private funds, and investment companies (Herrmann, Kubic, and Toynbee 2024).[3] However, we currently know little about the effects of SEC oversight in private markets. Lastly, because private funds face more limited monitoring from financial analysts, LPs, auditors, creditors, and boards of directors than public firms (e.g., Easton, Larocque, Mason, and Utke 2023, 2025), regulatory oversight may have a different impact on private funds than on public firms. More broadly,

[3] https://www.sec.gov/news/press/2010/2010-5.htm. Not all investment advisers are private fund advisers. Investment advisers also include more traditional institutional investors and financial advisers.

fundamental differences between private funds and other businesses mean that prior results do not directly translate to private markets (Gaver, Mason, and Utke 2023; Borysoff, Mason, and Utke 2024; Easton et al. 2025). Overall, our study is of interest to academics, regulators, and LPs seeking to understand and debate whether, and how, regulatory oversight affects private fund advisers.

We use a staggered difference-in-differences analysis to examine the effect of formal SEC *investigations* of investment advisers or investment companies on both advisers' fundraising ability and advisers' disclosure and governance choices.[4] Typically, the SEC initiates an investigation by notifying the target entity of the inquiry and requesting information. To preserve the integrity of the process and protect the reputation of the target entity, investigations generally remain private unless and until the SEC files an action either in court or through an administrative proceeding (Blackburne et al. 2021). Importantly, an SEC investigation does not automatically indicate wrongdoing, but investigations can result in serious consequences if they lead to enforcement, including administrative actions, lawsuits, negative publicity, or reputation damage. In recent years, advisers have been a common target of SEC enforcement actions. For example, in 2022, enforcement against advisers constituted 23% (the highest percentage) of all enforcement actions (SEC 2022). While investigations are private unless enforced, so that we cannot observe the items investigated in all cases, recent investigations that resulted in enforcement actions against advisers involve improper disclosures and failures to have policies and procedures in place to ensure compliance with laws (though no laws were necessarily violated) (Morgan Lewis 2025).

Ex ante, it is unclear how SEC investigations affect advisers' ability to fundraise, or their disclosure and governance choices. Investigations could lead advisers to increase transparency or improve governance, which could reduce agency conflicts and increase advisers' fundraising

[4] The SEC groups investment companies with advisers of private funds in its systems. Because we study only private fund advisers, we simply refer to these investigated entities as advisers or GPs throughout our paper.

ability. Anecdotally, remediation actions for advisers following SEC investigations include improving disclosure practices and strengthening governance structures.[5] Alternatively, SEC investigations could harm advisers' ability to fundraise if investigations are not entirely private (Bonsall, Donovan, Holzman, Wang, and Yang 2024), leading to reputational concerns among prospective LPs. Finally, SEC investigations could have no effect on fundraising if investigations are unknown to LPs or if LPs are not concerned with the issues targeted by the SEC. Similarly, investigations could lead to changes in disclosure or governance practices that satisfy the SEC but are irrelevant to LPs, who may focus on cash flows and returns.

Our sample includes 32,594 adviser-year observations for 5,409 unique advisers from 2011 to 2019.[6] We combine Form ADV, Part 1 and 2 data with all SEC investigations of advisers obtained from the SEC through FOIA requests. We hand match these data sources by adviser name and retain only advisers that manage private funds. In an average year, only about 0.8% of advisers are under SEC investigation, consistent with private funds being lightly regulated.[7] Using this data, we compare fundraising, governance, and disclosures of the treated sample (i.e., adviser-years after the initiation of SEC investigations) and the control sample (i.e., adviser-years before the initiation of SEC investigations and adviser-years for advisers who have never been investigated) in a staggered difference-in-differences design. To account for systematic differences between our

[5] For example, Yucaipa Master Manager, LLC faced SEC enforcement for failing to disclose conflicts of interest and misallocating fees and expenses. As part of the remediation efforts, Yucaipa undertook several actions including enhancing compliance oversight. https://www.sec.gov/files/litigation/admin/2018/ia-5074.pdf.

[6] Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), all private fund advisers managing more than $100 million in assets ($25 million if not required to register with their state) must annually file Form ADV, Part 1, which discloses many characteristics of the adviser and the funds they manage. Advisers managing more than $150 million in assets and not meeting other exemption criteria (e.g., not solely managing venture funds) must also file Form ADV, Part 2, which is a narrative disclosure (see Campbell, Davidson, Mason, and Utke 2024). We combine data from Form ADV, Part 1 and Part 2 in this study, ensuring a consistent sample of non-exempt funds subject to similar regulation. See Section 3.1 for details on non-exempt funds.

[7] Blackburne et al. (2021) document that about 11% of publicly listed firms are under SEC investigation in an average year. That said, we observe an increasing trend in the frequency of SEC investigations of private fund advisers in our sample, from about 0.4% in early 2010s to over 1% in recent years.

treatment and control samples, we include adviser fixed effects, use an entropy-balanced sample, and control for other factors that influence private fund advisers' fundraising (e.g., performance, misconduct) and likelihood of being investigated (e.g., size).

We find that private fund advisers' fundraising ability improves following an SEC investigation. Investigated advisers are 5.3% more likely to raise a new fund, which equates to roughly three additional funds being formed in the post-investigation period on average, compared to advisers not subject to an investigation (recall that an investigation does not indicate wrongdoing). Our estimates suggest that investigated advisers raise an additional $190.1 million in capital following an investigation, which is economically significant and equates to 15% of the standard deviation in new fund value raised. In cross-sectional analyses, we find that the fundraising effects of SEC investigations concentrate in larger advisers and advisers with more inside ownership in their funds, where advisers likely face higher agency costs.

We next explore whether advisers alter their disclosure or governance choices in response to SEC investigations. We obtain disclosures from Form ADV, Part 2, often referred to as an adviser's 'brochure,' which is similar in concept to the business overview (item 1) and risk factor (item 1A) sections in a 10-K, containing plain-language narratives of numerous items such as the adviser's investment strategies, risks, code of ethics, and compensation arrangements. Using FinBERT, we measure the quantity of disclosure and tone of each sentence in the brochure. We also measure the quantity of language related to business ethics, corporate governance, and legal topics. We find that advisers provide longer, but more negatively toned, disclosures following an SEC investigation. Regarding specific topics, advisers increase their discussions of business ethics and legal topics following investigations. Overall, the evidence suggests that advisers increase the quantity and transparency of their disclosure following SEC investigations.

Next, we use Form ADV, Part 1 to identify advisers' choice to engage a Big 4 auditor or to obtain an audit over internal controls. We view both choices as increasing the quality and strictness of governance over financial reporting (Gaver et al. 2023; Mason et al. 2025), which ultimately can reduce agency conflicts between GPs and LPs. We find that advisers increase their use of both Big 4 auditors and audits over internal controls in response to SEC investigations. In sum, we find that SEC investigations are associated with enhancements in disclosure and governance.

Given our evidence that SEC investigations improve fundraising, along with disclosure and governance, we examine the extent to which disclosure and governance are mechanisms underlying improved fundraising. We find that the increase in fundraising ability concentrates in advisers who enhance disclosure. However, we fail to find similar fundraising benefits for advisers that strengthen governance over financial reporting. This result is consistent with Gaver et al. (2023), who find limited fundraising benefits to stricter financial reporting choices, but could also reflect low statistical power arising from limited variation in governance changes. We also find that investigated advisers decrease their investors' required minimum investment after an investigation. The effects of disclosure facilitating fundraising concentrate in advisers that reduce their minimum investment, suggesting that an expanding investor base plays a role in our results.

We conduct five additional analyses. First, we support our parallel trends assumption by separately examining years before and after investigations, finding that results only appear after SEC investigations are initiated. Second, we examine whether our results are driven by advisers who ultimately face enforcement actions from the SEC, rather than only an investigation. We find that advisers ultimately facing enforcement do not drive results. Third, we find that fundraising results are largely consistent across major fund types: buyout, hedge, venture capital, and real estate. Fourth, we explore the determinants of SEC investigations, finding that adviser size, age,

and performance are positively associated with investigations, as is past adviser misconduct. We control for and entropy balance on these attributes to mitigate concerns over selection on observables. Finally, we perform a test examining the likelihood that an omitted variable exists that is large enough to overturn our results (Oster 2019). The results suggest that the existence of such a variable is unlikely. That said, while our research design takes steps to mitigate concerns that results are driven by the selection of SEC investigations, we cannot completely rule out this possibility. Therefore, we caution readers against interpreting causality from our findings.

Our paper makes several contributions. First, we contribute to the SEC investigation and enforcement literature. Existing research focuses on the determinants and consequences of the SEC's activities in public firms (e.g., Farber 2005; Cheng and Farber 2008; Chakravarthy, deHaan, and Rajgopal 2014; Files, Martin, and Rasmussen 2019). To our knowledge, we provide the first evidence on the effect of SEC investigations on private fund advisers. We also provide new evidence on how businesses respond to misreporting allegations (e.g., Hennes, Leone, and Miller 2008; Efendi, Files, Ouyang, and Swanson 2013). Interestingly, while some research argues that firms make opportunistic decisions when SEC investigations are undisclosed (e.g., Blackburne et al. 2021), our evidence suggests private fund advisers enhance reporting and governance following SEC investigations. Because the SEC is the primary regulator in the U.S. for overseeing the private fund market, our study provides initial evidence regarding the SEC's effectiveness in this role.

Second, we contribute to the literature on monitoring in private funds. Private funds lack key external monitors—e.g., short sellers, analysts, and the media—that benefit capital formation for public firms and mutual funds. We find that SEC oversight appears to provide benefits to advisers (enhanced fundraising, improved disclosure and governance). This contrasts with limited or mixed evidence of monitoring in private funds by other external parties (e.g., Gaver et al. 2023;

Easton et al. 2025). Our finding informs regulators seeking to increase regulation of private funds.

Finally, we contribute to the literature on fundraising in private funds (e.g., Kaplan and Schoar 2005; Campbell et al. 2024; Flam et al. 2025; Jiang et al. 2025). We find that SEC investigations are associated with advisers' fundraising. Further, we provide important insight suggesting that advisers improve disclosure and governance following SEC investigations, adding to the limited literature on the disclosure and reporting choices of private fund advisers.

II. SETTING, PRIOR LITERATURE, AND HYPOTHESIS DEVELOPMENT

2.1 Setting

The SEC's Division of Enforcement is responsible for pursuing civil and administrative enforcement actions against individuals and organizations involved in fraudulent activities, financial and accounting misconduct, and other violations. As the largest division within the SEC, it plays a critical role in upholding the integrity of financial markets. The SEC investigation process usually begins with a "lead," a potential securities law violation identified through sources such as whistleblower tips, media reports, or regulatory surveillance. If the lead is deemed credible, SEC staff open a preliminary inquiry, known as a Matter Under Inquiry (MUI). The MUI concludes either with its closure or its conversion into a formal investigation within sixty days, which requires approval from an Associate Director in the Division of Enforcement (SEC 2017).[8] During this formal investigation, the SEC can examine the books and records of the entities under scrutiny, interview witnesses, and issue subpoenas to gather documents from other parties (McLucas et al. 1997; SEC 2017). To avoid penalizing companies and their managers based on unfounded allegations, the SEC typically keeps its investigations confidential, unless and until an action is filed in court or through an administrative proceeding (SEC 2017; SEC 2024). Investigations can

[8] The SEC did not release information about MUIs or "leads" in response to our FOIA requests.

last several years. The majority of SEC investigations are not disclosed by public firms subject to investigation, yet they are material events that precede declines in operational performance (Blackburne et al. 2021; Blackburne and Quinn 2023; Bonsall et al. 2024).[9]

Historically, private funds faced minimal regulation, with most fund advisers being exempt from SEC registration. In response to the Global Financial Crisis, Dodd-Frank expanded the SEC's jurisdiction over private fund advisers by adding registration and disclosure requirements and reinforcing the SEC's ability to bring enforcement actions for violations of fiduciary duties and disclosure failures. Separately, the SEC's Division of Enforcement underwent a major reorganization in 2010, with the creation of five specialized units: Asset Management, Market Abuse, Structured Products, Foreign Corrupt Practices Act (FCPA), and Public Finance Abuse (SEC 2010). In terms of staff, the Asset Management Unit, which focuses on investigations involving investment advisers, investment companies, hedge funds, and private equity funds, is the largest (Herrmann et al. 2024). With the growing importance of private markets and the increasing focus on regulatory oversight, SEC enforcement against investment advisers and investment companies has become one of the most common enforcement actions in recent years. For example, in 2022, enforcement against advisers constituted 23% (the highest percentage) of all enforcement actions. In 2024, private funds remained a major focus of SEC enforcement efforts, with emphasis on issues related to disclosure and compliance (Morgan Lewis 2025).

Private funds are typically organized as limited partnerships where private fund advisers, or general partners (GPs), raise capital from external investors, known as limited partners (LPs), which consist of sophisticated investors (e.g., institutions, university endowments, pension funds,

[9] Private fund advisers rarely disclose investigations in our sample. We extract keywords related to mentions of SEC investigations from adviser's Form ADV and manually verify voluntary disclosures of ongoing investigations. Only four investigations (2.1%) were disclosed in Form ADV prior to the SEC's formal orders and settlements.

etc.). In the context of private equity funds, LPs commit capital to GPs for a limited period of time, generally 10 years, with the opportunity to continue for several more years (Kaplan and Strömberg 2004, 2009). Once the GP raises the target fund amount, the fund is 'closed,' limiting existing (new) LPs' ability to exit (enter) the existing fund. Therefore, investors are generally 'locked-in' to their private fund investments. In the context of hedge funds, LPs invest in open-ended funds. Because hedge funds are open, investors have greater liquidity and opportunity for exit as compared to private equity funds. However, some hedge funds have 'lock-up' periods, where investors' funds are unavailable for withdrawal, as well as restrictions on the amount of capital distributions.

The organizational structure of private funds creates two layers of agency costs. First, agency conflicts arise between LPs and GPs due to asymmetric information (e.g., Leland and Pyle 1977; Diamond 1984; Phalippou 2009; Metrick and Yasuda 2010, 2011; Crain 2018). Second, agency conflicts exist between GPs and their underlying portfolio companies, which GPs partially mitigate by exerting influence over these companies' operating, financing, and reporting decisions (e.g., Kaplan 1989; Jensen 1989; Lerner 1995; Zimmerman 2016; Cohn, Hotchkiss, and Towery 2022). Our study focuses on the former agency conflict, which largely affects a GP's ability to raise capital from external LPs. Fundraising is vital to the survival of private funds, and is economically important given that private equity funds provide capital to small/start-up firms.

GPs often raise capital for new private funds every three to five years (e.g., Metrick and Yasuda 2011; Crain 2018) to stay in business (Arcot et al. 2015). The fundraising process typically takes between three months and three years. GPs have an incentive to increase fundraising and assets under management to increase their future compensation. Therefore, understanding factors influencing private fund advisers' fundraising activities is of first-order importance.

2.2 Prior Literature and Hypothesis Development

Existing research finds several factors influence advisers' ability to fundraise, with the majority documenting that fund performance drives subsequent fundraising efforts (e.g., Kaplan and Schoar 2005; Chung et al. 2012; Hochberg et al. 2014). Recently, Jiang et al. (2025) find that the *disclosure* of negative information about the adviser, specifically misconduct reported by the adviser, inhibits the adviser's ability to fundraise.[10] We extend existing work to explore another potential item that may influence advisers' fundraising activities: investigations by the SEC. Importantly, we account for both performance and misconduct in our empirical analyses.

Because private funds are inherently opaque and funds need not disclose investigations (in contrast to enforcements; Jiang et al. 2025), SEC investigations may not directly affect advisers' fundraising if LPs are unaware of any investigation. Further, LPs may focus on other fund attributes (e.g., performance) rather than issues that may concern the SEC. However, unlike public companies and mutual funds, private funds lack key external monitors—such as short sellers, analysts, and the media—that prior research suggests benefit capital formation. Fundamental differences such as these between public and private markets mean that work in other settings does not directly translate to the private fund setting (e.g., Easton et al. 2025). Consequently, the SEC may serve as a particularly important external monitor for private funds by deterring opportunistic behavior by advisers and encouraging them to improve governance and disclosure. These effects could reduce agency conflicts between GPs and LPs, enhancing fundraising. It is also possible that SEC investigations have negative effects on fund advisers' fundraising ability if LPs become aware of SEC investigations through private communication with fund advisers (Bonsall et al. 2024), which are permitted because Regulation Fair Disclosure [Reg FD] does not apply to private funds. Therefore, it is an empirical question as to whether SEC investigations affect fundraising. Given

[10] Nearly all investigations are *undisclosed*. We further reconcile our results to Jiang et al. (2025) in Section 4.

the competing predictions, we state our first hypothesis in the null form:

H1*: Private fund advisers' fundraising does not change following SEC investigations.*

Resolving information asymmetry issues between GPs and LPs may be especially important following the initiation of an SEC investigation. Consequently, advisers may increase disclosure in response to SEC investigations to signal greater integrity (Libby and Tan 1999; Mercer 2004) and reduce information asymmetry (Leuz and Verrecchia 2000). However, there are several reasons advisers may not increase disclosure. First, sophisticated LPs, who already have inside information from their direct access to GPs, may place little value on additional disclosure. Second, advisers could leave disclosure unchanged to avoid making LPs aware of the investigation or the issues being investigated. In fact, advisers may even reduce the amount of disclosure following an SEC investigation. In public markets, Rogers and Van Buskirk (2009) find managers reduce the quantity of information disclosed following class-action lawsuits suggesting advisers may conceal information following an SEC investigation.

In addition to advisers simply disclosing more or less information, advisers could use the tone or content of disclosure to convey value-relevant information to investors. Prior literature for public firms finds that investors value disclosures' content and tone (e.g., Feldman et al. 2010; Loughran and McDonald 2011; Campbell et al. 2014; Baginski et al. 2016). As such, private fund advisers may use positive tone or content to obfuscate any negative information related to an SEC investigation (Henry 2008; Rogers et al. 2011; Huang et al. 2014). However, advisers could use more negative tone or content (e.g., discussion of business ethics) to increase transparency, which has been used by public firms to mitigate future risks and temper investors' expectations (e.g., Rogers et al. 2011). Alternatively, different from public markets, advisers may find little benefit to altering tone and content in their disclosures if sophisticated investors do not value the information

due to their direct access to advisers or if the disclosure is primarily boilerplate. Overall, given the competing predictions about disclosure length, tone, and content, we present the following hypothesis in the null form:

H2*: Private fund advisers' disclosures do not change following SEC investigations.*

Another way advisers may respond to SEC investigations is through governance changes. Research in public markets finds that financial reporting misconduct reduces firm value by 20 to 25 percent due to reputational costs, with the largest losses occurring in firms subject to SEC or Department of Justice enforcement actions (Beneish 1999; Karpoff et al. 2008). Firms with financial misreporting experience higher costs of capital and reduced operating cash flow (e.g., Murphy et al. 2009; Kravet and Shevlin 2010). Public firms take strategic steps to mitigate these consequences by changing board composition (Farber 2005) and changing their CEO or auditor (Wilson 2008). However, this literature focuses on publicly observable SEC *enforcement* actions in public firms. SEC investigations, on the other hand, are often undisclosed and do not necessarily indicate wrongdoing. As a result, it is unclear what effect SEC investigations have on advisers.

On one hand, advisers subject to SEC investigations may alter their financial reporting choices or internal governance to mitigate potential negative outcomes from an investigation. For example, advisers may increase their strictness of reporting choices (e.g., use a Big 4 auditor, obtain internal controls audit) to signal improved internal reporting and operations (Mason, Utke, and Weber 2025). On the other hand, strict financial reporting may be of limited value for advisers, especially since sophisticated LPs in private funds have inside access to advisers (i.e., Reg FD does not apply). Further, because it is unclear that strict financial reporting improves fundraising (Gaver et al. 2023), advisers may not see the need to adjust this governance mechanism in response to SEC investigations. As such, we state our third hypothesis in the null form:

H3*: Private fund advisers' governance does not change following SEC investigations.*

We also examine the linkages between hypothesis 1 and hypotheses 2 and 3. Specifically, we consider the extent to which any increase in fundraising arises from changes in disclosure or governance. Because we present all of our prior hypotheses in the null, we do not present a hypothesis for this mechanism test because it is conditional on the results of prior tests.

III. DATA, RESEARCH DESIGN, AND DESCRIPTIVE STATISTICS

3.1 Data

To answer our research questions, we require data on SEC investigations, adviser and fund characteristics, and adviser disclosures. First, we obtain information on SEC investigations that pertain to investment advisers or investment companies through FOIA requests. The SEC investigation dataset includes formal SEC investigations that were closed between 2011 and 2022, with the names of all investigated entities (e.g., public companies, broker-dealers, investment advisers) and the open and close dates of the SEC investigations.[11]

Next, we obtain SEC filings of Form ADV, Part 1. Following the passage of Dodd-Frank in 2010, advisers to private funds are generally required to file Part 1 of Form ADV with the SEC within 90 days of their fiscal year-end.[12] Form ADV, Part 1 contains information for each private fund adviser, including identifying information and total assets under management, as well as data for each individual private fund managed by the adviser (see Gaver et al. 2023 and Borysoff et al. 2024 for discussion of Form ADV, Part 1).[13] We then implement a matching process to combine

[11] The dataset was compiled through information obtained via different FOIA requests. We thank Terrence Blackburne for sharing SEC investigation data from 2011 to 2017. We obtain data from 2018 to 2022 through FOIA requests. We focus on investigations of investment advisers or investment companies, labeled "IA/IC" in the dataset.

[12] In general, investment advisers (including GPs under Dodd-Frank, see Gaver et al. 2023 and Borysoff et al. 2024) must register with the SEC when they manage more than $100 million in assets, or more than $25 million if not required to register with their state. See https://www.sec.gov/news/press/2011/2011-133.htm for additional details on the SEC's registration requirements for investment advisers, with a focus on amendments instituted by Dodd-Frank.

[13] As an example of our data, consider the investment adviser, Blackrock Investment Management, LLC (Blackrock).

the data on SEC investigations with the Form ADV filings. We first implement an exact name matching algorithm between advisers the SEC lists as under investigation with the name provided by the investment adviser on Form ADV. For those advisers that we were unable to find an exact match, we manually match adviser names from SEC investigations to Form ADV.

Our sample starts in 2011 and ends in 2019. We begin in 2011 because this is the first year for which Form ADV data is available.[14] We end in 2019 because our investigation dataset only includes cases closed before December 30, 2022, and most investigations started during or after 2020 are not included because they have not yet been closed. Investment advisers can be subject to multiple investigations concurrently. Following Blackburne and Quinn (2023), we consolidate concurrent investigations into a single continuous investigation period.[15]

We initially obtain data for all advisers filing Form ADV with positive assets under management. Because we are interested in investment advisers that manage private funds, we restrict our sample to those advisers that disclose information related to their private funds.[16] After applying these restrictions, we retain 39,036 adviser-year observations (7,309 unique advisers of private funds). We further restrict this sample to include only those advisers with primarily domestic operations based on the postal code of their principal offices, reducing our sample by 3,047 adviser-year observations (635 unique advisers).

To address our research questions related to disclosure changes following SEC

Blackrock files detailed fund information on Form ADV for each PE fund it manages. Blackrock manages several private funds including: Blackrock Private Equity Select Fund I, L.P., Blackrock Private Equity Select Fund II, L.P., Blackrock Private Opportunities Fund, L.P., Blackrock Private Opportunities Fund II, L.P., Blackrock Private Opportunities Fund III, L.P., and several other funds in our dataset. The adviser, Blackrock, will file one Form ADV annually, which includes information that pertains to each fund managed by Blackrock.

[14] The first Form ADVs were filed in early 2012. As with Form 10-K, these filings relate to the prior year, so that 2012 Form ADV filings generally relate to 2011.

[15] We define concurrent investigations as either overlapping investigations (e.g., a new investigation of an adviser begins during the adviser's ongoing investigation) or closely contemporaneous investigations (e.g., a new investigation is opened for an adviser within 365 days following the close of that adviser's previous investigation).

[16] Advisers denote whether they are an adviser of a private fund in Item 7(B) of Form ADV and disclose detailed information about each private fund they manage in Schedule D, Section 7.B.(1).

investigations, we also require advisers to file Form ADV, Part 2. Part 2, referred to as an adviser's 'brochure,' must be filed with the SEC within 120 days of an adviser's fiscal year end by all non-exempt investment advisers following the passage of Dodd-Frank (see SEC Release IA-3060, 2010). Exempt advisers manage less than $150 million in assets or solely advise venture capital funds. These advisers are not required to obtain an annual financial statement audit (Gaver et al. 2023). Using only advisers that are non-exempt, and thus required to file Part 2 of Form ADV and obtain an audit, mitigates concerns that any results are due to differences in advisers' reporting choices (e.g., decision to obtain an audit). Adviser brochures are intended for investor use and must be written in 'plain English' narrative form. Advisers' brochures disclose 19 specific items required by the SEC including risks, investment strategies, ethics, types of clients, and compensation arrangements. Following Campbell et al. (2024), we use Form ADV, Part 2 to proxy for information provided to LPs. Requiring Part 2 further reduces our sample by 1,218 adviser-years or 327 unique advisers. Finally, we remove advisers with multiple non-concurrent investigations within the sample period, observations containing partial years under investigation, observations missing control variables, and singletons. Our final test sample includes 32,594 adviser-year observations (5,409 unique advisers). Table 1 presents our sample selection process.

3.2 Research Design

To examine the impact of SEC investigations on advisers, we implement a generalized difference-in-differences regression analysis. To identify treated firms, we create the variable *SEC*×*Post*, which is an indicator variable equal to one for GP-years during or after an SEC investigation, and zero otherwise. Because SEC investigations of advisers last 3 years on average, we also evaluate the timing of investigation effects by separately examining the investigation period (*SEC*×*During*) and the post-investigation period (*SEC*×*After*). Specifically, *SEC*×*During*

(*SEC*×*After*) is an indicator variable equal to one if the GP's fiscal year-end falls after the open date but before the close date (after the close date) of the SEC's investigation. Our treated sample (*SEC*×*Post* = 1) includes 657 adviser-year observations (191 unique advisers), while our control sample (*SEC*×*Post* = 0) includes 31,937 adviser-year observations (5,384 unique advisers).[17]

3.3 Fundraising Regression Model (H1)

Our first hypothesis predicts that adviser fundraising is unaffected by SEC investigations. We implement the following generalized difference-in-differences model to test this prediction:

$$Fundraising_{i,t} = \alpha_0 + \alpha_1 SEC \times Post_{i,t} + \left[\alpha_1 SEC \times During_{i,t} + \alpha_2 SEC \times After_{i,t}\right] + \sum \alpha Controls + \text{Adviser FE} + \text{Year FE} + \varepsilon_{i,t} \quad (1)$$

Where *i* denotes adviser and *t* denotes year. The dependent variable, *Fundraising*, refers to one of three dependent variables, *NewFund_Ind*, *NewFund_Count*, or *NewFund_Value*. *NewFund_Ind* is an indicator variable equal to one if GP *i* forms at least one new fund in year *t* and zero otherwise. *NewFund_Count* is the total number of new funds formed by GP *i* in year *t.* Finally, we explore the magnitude of new capital raised by the adviser using *NewFund_Value*, which is calculated as the natural logarithm of all capital raised in year *t*. We set *NewFund_Value* equal to zero if the adviser does not raise any new capital in year *t*.[18]

When estimating each model of fundraising, we first estimate a model including only *SEC*×*Post*, followed by a model including both *SEC*×*During* and *SEC*×*After*. We include adviser and year fixed effects, and cluster standard errors by adviser. Adviser (year) fixed effects absorb the main effect of *SEC* (*Post*). We also estimate the model before and after entropy balancing the sample to the third moment (mean, variance, skewness) to alleviate concerns of functional form

[17] Not all treated advisers have at least one observation pre- and post-investigation. Results (untabulated) are qualitatively similar if we require that all treatment advisers have at least one pre- and post-investigation observation, which yields 5,330 advisers.

[18] Results (untabulated) are nearly identical if we define *NewFund_Value* as the log of 1 + all capital raised in year *t*.

misspecification. All continuous variables are winsorized at the 1st and 99th percentiles.

Controls is a vector of control variables in time *t-1* that likely affects fundraising and SEC investigation likelihood. Following existing research (e.g., Campbell et al. 2024; Jiang et al. 2025), we include adviser size (*LnAUM*), age (*Age*), and ownership characteristics: the number of owners (*LnOwners*), inside ownership (*OwnedRelated*), sophisticated investor ownership (*OwnedFoF*), and foreign ownership (*OwnedNonUS*).[19] Ownership variables relate to the fund-, rather than adviser-, level so we follow Gaver et al. (2023) to aggregate them to the adviser-level using a weighted average, where the weight is each fund's assets under management. We also include an indicator variable, *Misconduct*, identifying advisers with past regulatory, civil, or criminal misconduct, following Jiang et al. (2025). To account for differences in fundraising due to the type of fund, we include *HF_only* and *BO_only*, which are indicator variables equal to one if GP *i* manages only hedge funds or buyout funds in year *t*, respectively.[20]

Because performance is a main determinant of an adviser's ability to raise capital, we include *IRR*, which is the average final fund performance, measured as the internal rate of return, for all funds managed by GP *i* prior to year *t* (Chung et al. 2012; Barber et al. 2021). Performance data comes from Preqin, a leading data provider for private funds and their advisers (e.g., Harris et al. 2014; Kaplan and Lerner 2017). For advisers not covered by Preqin, we replace *IRR* with the average market performance for all private funds managed by all advisers in our sample in year *t* to maximize our sample size (Jiang et al. 2025). Finally, we account for the distance between the regional SEC office and the adviser's principal office (*Distance*) to capture the potential that fundraising is affected by the difficulty in an adviser's administrative handling of the SEC's

[19] Adviser size (*LnAUM*) may be a "bad control" (see Whited, Swanquist, Shipman, and Moon 2022) in our setting because it varies with fundraising. Untabulated results are robust to measuring size using pre-investigation AUM.
[20] Results (untabulated) are robust to dropping the seven publicly traded advisers, which may have different information environments than other advisers. There are too few public adviser-years to allow separate examination.

investigation or the intensity of the investigation. Appendix A provides full variable definitions.

3.4 Disclosure Regression Model (H2)

Our second hypothesis relates to how SEC investigations affect advisers' disclosures. Using Form ADV, Part 2 filings, we construct various disclosure measures based on textual analysis using the FinBERT model developed by Huang et al. (2023). We first identify the quantity of total disclosure using the natural logarithm of the number of sentences in each Part 2 (*SentCount*). We then use FinBERT's sentiment model to classify each sentence as either negative, positive, or neutral. We measure the general tone of each Part 2 (*Tone*) as the percentage of sentences classified as positive minus the percentage of sentences classified as negative. We are also interested in how the specific content of information disclosed in Part 2 changes following SEC investigations. Therefore, we measure the extent to which each Part 2 filing discusses business ethics (*Ethics*) and corporate governance (*CorpGov*) as the percentage of sentences that relate to *Ethics* and *CorpGov* using the ESG FinBERT model. Given that FinBERT is not trained to identify legal topics, we use the legal risk word list developed by Campbell et al. (2014) to measure the percentage of words related to legal topics in each Form ADV, Part 2 (*Legal*).

Using these measures, we examine our second hypothesis by again implementing a generalized difference-in-differences empirical design surrounding SEC investigations, comparing treated advisers to control advisers, using the following estimation:

$$Disclosure_{i,t} = \alpha_0 + \alpha_1 SEC \times Post_{i,t} + \left[\alpha_1 SEC \times During_{i,t} + \alpha_2 SEC \times After_{i,t}\right] + \sum \alpha Controls + \text{Adviser FE} + \text{Year FE} + \varepsilon_{i,t} \quad (2)$$

Where *Disclosure* is one of the multiple disclosure measures computed from Form ADV, Part 2 as defined above: *SentCount*, *Tone*, *Ethics*, *CorpGov*, or *Legal*. Like our test of H1, our variables of interest include *SEC*×*Post* or *SEC*×*During* and *SEC*×*After*. *Controls* is the same vector of controls described in Equation 1 above. Like Equation 1, we use an entropy-balanced sample, include

adviser and year fixed effects, and cluster standard errors by adviser.

3.5 Governance Regression Model (H3)

Our third hypothesis, in null form, makes no prediction on the relation between advisers' governance choices and SEC investigations. As before, we implement a generalized difference-in-differences model using the following estimation:

$$Governance_{i,t} = \alpha_0 + \alpha_1 SEC \times Post_{i,t} + \left[\alpha_1 SEC \times During_{i,t} + \alpha_2 SEC \times After_{i,t}\right] + \sum \alpha Controls + \text{Adviser FE} + \text{Year FE} + \varepsilon_{i,t} \quad (3)$$

Where the dependent variable, *Governance*, refers to either advisers' choice to use a Big 4 auditor (*Big4*) or obtain an audit over internal controls (*IC*). Like our test of H1 and H2, our variables of interest include *SEC*×*Post* or *SEC*×*During* and *SEC*×*After*. *Controls* is the same vector of controls described in previous models. Also consistent with our previous models, we use an entropy-balanced sample, include adviser and year fixed effects, and cluster standard errors by adviser.

3.6 Descriptive Statistics

Table 2, Panel A presents descriptive statistics for our dependent variables, variables of interest, and control variables. We observe 23.4% of our adviser-year observations form a new fund in a given year. Among observations that form new funds, on average, just over 2 funds are formed with $79 million in assets under management (untabulated). Advisers in our sample have been in existence for 6.3 years and manage $923 million on average.

To provide initial evidence on the effect of SEC investigations on fundraising, we examine fundraising before, during, and after an SEC investigation for our sample of treated advisers. We present these univariate statistics in Table 2, Panel B. We find a significant increase in advisers' fundraising across all three measures of fundraising (*NewFund_Ind*, *NewFund_Count*, *NewFund_Value*) both during and following an SEC investigation. Panel C and Panel D provide similar univariate statistics for advisers' disclosure and governance choices. We generally observe

increases (decreases) in disclosure (tone) and enhanced governance following the initiation of SEC investigations. These univariate comparisons provide preliminary evidence that SEC oversight, via an investigation, is positively associated with advisers' fundraising, disclosure, and governance. This suggests SEC oversight may alleviate some agency costs between GPs and LPs, allowing for increased fundraising by the GP. However, we refrain from drawing stronger conclusions from this univariate analysis because it does not account for other variables (e.g., performance) that influence an adviser's ability to fundraise or the likelihood of an SEC investigation.

We next compare treated and control advisers to identify significant differences in control variables across groups. We present these univariate comparisons in Table 2, Panel E. We observe significant differences across nearly all control variables between investigated advisers and those not subject to an SEC investigation. Investigated advisers are larger, older, have more investors, and have significantly better performance than other advisers. However, investigated advisers are less likely to specialize in managing only one type of fund and are generally further away from the SEC's regional office. Because of the significant differences between our treated and control samples, and the concern these differences are systematically related to advisers' fundraising activities or investigation likelihood, we control for these factors in our regressions. We also implement entropy balancing to ensure covariate balance between treated and control advisers across our control variables to the third moment (mean, variance, skewness). After entropy balancing, these moments for control advisers become virtually identical to those of treated advisers (untabulated). Therefore, throughout our remaining analyses, we use our entropy-balanced sample (except where noted in Section 4.1) to ensure our results are robust to considering the differences between our treated and control samples.

IV. RESULTS FOR FUND FORMATION

4.1 Analysis of Fundraising (H1)

Table 3 presents results from estimating Equation 1, assessing the association between SEC investigations and fundraising using an unweighted (entropy balanced) sample in Panel A (B). We find a 5.3% increase in the likelihood of raising a new fund (coefficient on *SEC×Post* in Panel A, column 1) following the initiation of an SEC investigation. This reflects a 22.6% increase over the sample average fundraising of 23.4% (0.053 / 0.234). Similarly, in column 3 we observe the creation of nearly one additional fund (0.918) following an SEC investigation, a 129% increase relative to the mean (0.918/0.708). In column 5, when analyzing the amount of new capital raised, we find a positive and significant coefficient on *SEC×Post* of 1.224. This equates to a 240% (exp[1.224] - 1) increase in new capital raised following an SEC investigation in our unweighted sample, or $190.1 (240% * 79.2) million in additional capital raised by advisers subject to an SEC investigation. Given the skewness of the distribution, we put this in terms of the standard deviation, with the increase in new capital raised equal to 15% of the standard deviation of *NewFund_Value* (coefficient of 1.224 divided by the standard deviation of *NewFund_Value* of 7.964). For context, the coefficient on *LnAUM* is 1.883 in Panel A, column 5, suggesting a one standard deviation increase in *LnAUM* (1.832) yields a 3.450 increase (1.883 * 1.832) in the amount of new capital raised, or 43.3% of the standard deviation in *NewFund_Value* of 7.694. Therefore, while a 240% increase in the amount of new capital raised resulting from an SEC investigation appears large, it is less than half of the increase associated with a one standard deviation increase in adviser size.

Overall, the evidence in Panel A suggests a statistically significant and economically meaningful relation between SEC investigations and advisers' ability to raise new funds.[21] Results

[21] We estimate Equation 1 as a generalized difference-in-differences model. In untabulated analyses, we re-estimate Equation 1 using a stacked difference-in-differences design to verify the results are robust (Baker, Larcker, and Wang 2022). To do so, we assign treated and control firms to cohorts where control advisers are those that are never under SEC investigation. We create cohorts based on the year investigations start. Using the stacked design, we estimate significant coefficients on *SEC×Post* of 0.056, 0.953, and 1.279 when *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value* are the dependent variables, respectively, similar to the coefficients in Panel A of Table 3.

are stronger both in magnitude and statistical significance when using our entropy balanced sample in Panel B. For example, Panel B, column 1 reports an 8.1% higher likelihood that an adviser raises a new fund following an SEC investigation. In sum, we find consistent evidence that advisers subject to SEC investigations are more likely to raise at least one new fund, increase the number of new funds they raise, and raise more capital than other funds, rejecting the null H1.

We next examine whether the increased fundraising activity occurs while the investigation is ongoing, after the investigation closes, or both. Columns 2, 4 and 6 in each Panel present the results for *SEC×During* and *SEC×After*, which are indicator variables capturing the time periods during and after an SEC investigation, respectively. We estimate positive coefficients on *SEC×During* and *SEC×After* in each regression presented in Panels A and B, and these coefficients are significant in all cases except for column 2 Panel A, where the t-statistics fall just below conventional significance levels. In terms of economic magnitude, we generally find larger coefficients in the period after the investigation closes than during the investigation. However, the *SEC×During* and *SEC×After* coefficients are insignificantly different from one another in all columns, suggesting both a near-term impact of SEC investigations on advisers' fundraising activities as well as more long-standing effects once the investigation concludes.

On their face, our results may appear to conflict with Jiang et al. (2025), who find that an adviser's initial *disclosure* of misconduct is negatively related to fundraising. However, numerous differences exist. Notably, Jiang et al. (2025) fail to find that the *occurrence* of misconduct – more akin to an investigation – negatively affects fundraising. Furthermore, the effect of disclosure in Jiang et al. (2025) appears to arise from LPs' reputational costs in that, upon misconduct disclosure, LPs' stakeholders pressure the LPs to avoid misconduct advisers. Because the investigations that we study are not disclosed, our mechanisms and results differ significantly from Jiang et al. (2025).

4.2 Analysis of Fund Formation by Size and Inside Ownership

To further understand the relation between fundraising and SEC investigations, we explore cross-sections based on either adviser size (*LnAUM*) or inside ownership (*OwnedRelated*). Size may reflect advisers' available resources or higher agency costs due to more complexity and information asymmetry, while inside ownership reflects "skin in the game" or higher agency costs due to potentially weaker outside monitoring. We separate advisers into *large* and *small* advisers based on the median *LnAUM* in the sample. We separate advisers into *high* and *low* inside ownership based on the median percentage ownership that the adviser has invested in their funds (*OwnedRelated*) in the sample. We re-estimate Equation 1 for each group separately.[22] Table 4, Panel A presents results from the size cross-section, with columns 1, 3, and 5 (2, 4, and 6) displaying results using our three measures of fundraising outcomes, respectively, for large (small) advisers. Table 4, Panel B presents results from the inside ownership cross-section estimation with columns 1, 3, and 5 (2, 4 and 6) presenting results for advisers with high (low) inside ownership.

We find that the increase in new fund formation and the amount of capital raised following an SEC investigation concentrates in large (high inside ownership) private fund advisers in Panel A (B, except column 3). The size results suggest larger advisers have more resources available to handle SEC investigations (e.g., less distraction; more thorough responses) or that, because agency costs are higher for large funds, investigations provide greater marginal benefit in the form of reduced agency costs.[23] The inside ownership results suggest that oversight by the SEC in the form of investigations has a stronger spillover effect on fundraising when agency costs of the adviser are higher (i.e., higher inside ownership). Overall, results are consistent with SEC investigations

[22] For brevity, we do not report results separately including the period during (*SEC×During*) and after (*SEC×After*) investigation. Results are consistent with those reported, concentrating in larger or high inside ownership advisers.
[23] The cross-sectional tests also provide additional matching. Notably, the fact that results hold within large funds indicates that results do not arise solely from larger funds' greater fundraising ability and SEC investigation likelihood.

reducing agency costs where agency costs are most problematic.

V. RESULTS FOR DISCLOSURE AND GOVERNANCE

5.1 Analysis of Disclosure (H2)

Our evidence suggests that SEC investigations are positively associated with advisers' fundraising activities, yet it remains unclear why. We test H2 to determine whether private fund advisers' disclosure choices change in response to SEC investigations. As previously discussed, we explore the quantity, tone, and content of narrative disclosures in Form ADV, Part 2 filed with the SEC. Table 5, Panel A presents estimates of Equation 2 with columns 1 and 2 (3 and 4) presenting results for *SentCount* (*Tone*), which represent overall measures of disclosure quantity and tone. We find the quantity of disclosure significantly increases following SEC investigations in column 1. Specifically, we observe a 7.1 percent (exp[0.069] - 1) increase in the number of Part 2 sentences following an SEC investigation. Effects do not significantly differ in the period during versus after the investigation in column 2. Notably, in untabulated analyses, we examine measures of obfuscation in disclosure (e.g., the Fog index). Although the quantity of disclosure increases following investigations, we fail to find evidence of increased obfuscation.

Turning to our tone analysis, we find a significant negative coefficient on *SEC*×*Post* in column 3, which suggests the overall tone of Part 2 filings becomes more negative following the initiation of SEC investigations. Effects do not significantly differ in the period during versus after the investigation in column 4. Overall, we find advisers increase the quantity of disclosures and decrease the tone of disclosures during SEC investigations, suggesting advisers alter disclosures to better inform LPs or mitigate potential negative outcomes from SEC investigations.[24]

Next, we assess whether advisers change the specific content of Form ADV, Part 2

[24] As noted earlier, very few advisers discuss the actual SEC investigations in Form ADV, indicating that we are not just capturing additional disclosure of the investigation itself.

disclosures following an SEC investigation. Table 5, Panel B presents our analysis of advisers' discussions business ethics (*Ethics*), corporate governance (*CorpGov*), and legal (*Legal*) topics following SEC investigations. We find evidence that advisers increase their discussion of business ethics and legal topics in Form ADV, Part 2 following the SEC investigation (Panel B, columns 1 and 5). However, we do not find evidence that advisers expand their governance-related disclosures (Panel B, column 3). When separating disclosures during the SEC investigation and after, we find that these changes occur both during and after investigations. Taken together, we find that advisers increase the business ethics and legal language in their disclosures during and following the SEC's investigation. This evidence is consistent with advisers' desire to reassure LPs of their commitment to ethical practices or to be forthcoming with respect to ethical and legal issues in connection with the SEC investigation, rejecting the null H2.

5.2 Analysis of Governance (H3)

We next test H3, analyzing whether advisers change their governance (e.g., Big 4 auditor and internal controls audit choices) following SEC investigations, by estimating Equation 3 using our entropy balanced sample. Results from this analysis are presented in Table 6 with columns 1 and 2 (3 and 4) analyzing the choice to use a Big 4 auditor (obtain an audit over internal controls). Table 6, columns 1 and 3 (2 and 4), use *SEC*×*Post* (*SEC*×*During* and *SEC*×*After*). We find that advisers are 3.1% more likely to use a Big 4 auditor following an SEC investigation. This finding suggests advisers respond to an SEC investigation by improving financial reporting quality through stricter auditor oversight. This effect concentrates in periods during rather than after investigations (column 2), suggesting a near-term response to investigations.

When analyzing the choice to obtain an audit over the advisers' internal controls, we observe a 5.3% higher likelihood of an internal controls audit following an SEC investigation

(column 3), though this falls just short of statistical significance. We find similar effects both during and after investigations, though only the coefficient after the investigation is statistically significant. In sum, the evidence rejects the null H3 and suggests that private fund advisers alter financial reporting and internal governance choices in response to SEC investigations. Our evidence is consistent with public market studies that find firms respond to financial misconduct by changing auditors and internal controls (e.g., Chakravarthy et al. 2014; Chava et al. 2017).

5.3 Channel Analysis

Our results to this point suggest that advisers experience an increase in fundraising, increase disclosure, and improve governance following SEC investigations. We argue that either increasing disclosure or improving governance could lead to better fundraising outcomes to the extent these changes reduce information asymmetry or agency costs between GPs and LPs. We now test the connection between advisers' disclosure and governance changes following SEC investigations and their fundraising outcomes. To do so, we estimate Equation 1 but allow the treatment effect (i.e., *SEC*×*Post*) to vary by whether a "treated" firm increased disclosure or improved governance following an SEC investigation. For disclosure tests, we focus on the variables that are significantly associated with SEC investigations in Table 6 (*SentCount*, *Tone*, *Ethics*, and *Legal*). For each disclosure variable, we construct an indicator equal to one if the firm increased the value of the variable (e.g., *IncSentCount*) and another indicator equal to one if the firm did not increase the value of the variable (e.g., *NoIncSentCount*). If the advisers that experienced improved fundraising outcomes following SEC investigations are the same advisers that changed their disclosure following SEC investigations, the positive effects should concentrate in advisers increasing (not increasing) disclosure (tone).

Table 7 presents the results. We find that the positive association between *SEC*×*Post* and

new funds concentrates in advisers that increase the quantity of their disclosure (columns 1 through 3), did not increase tone (columns 4 through 6), increased business ethics discussions (columns 7 through 9), and increased legal language (columns 10 through 12). Overall, the results suggest that fundraising outcomes are related to how firms change the quantity, tone, and content of disclosure following SEC investigations. This pattern is consistent with advisers improving disclosure following investigations to reduce information asymmetry, which in turn improves fundraising.

In untabulated analyses, we also test the governance channel (Big 4 auditor and internal controls audits) using the same approach. We fail to find that the positive association between *SEC×Post* and new funds concentrates in advisers that improve governance. This could be due to low statistical power arising from limited variation in changes in governance or with financial reporting governance having little association with private fund fundraising (Gaver et al. 2023).

VI. ADDITIONAL ANALYSES

Throughout the study, we employ a difference-in-differences model to examine fundraising and disclosure-related outcomes after SEC investigations. A key assumption when implementing this empirical design is parallel trends: that no systematic differences in trends between the treated (advisers subject to an investigation) and control (advisers not subject to investigations) advisers would exist in the absence of the treatment (i.e., investigation). To evaluate this assumption, we estimate our baseline model examining fund formation using multiple time period indicators for treated advisers one, two, and three years prior to the SEC investigation (*Pre-Investigate_1*, *Pre-Investigate_2*, *Pre-Investigate_3*) as well as indicators for one and two or more years after the open date of an SEC investigation (*Investigate_1*, *Investigate_2*). The benchmark time period is all GP-years four years or more prior to the investigation. As in our main models, we estimate this model using both adviser and year fixed effects.

Table 8 presents results. Insignificant coefficients on *Pre-Investigate_1*, *Pre-Investigate_2*,

and *Pre-Investigate_3* suggest no differences between investigation and non-investigation advisers prior to an SEC investigation, consistent with parallel trends. This supports our baseline empirical design choice of a difference-in-differences methodology. We continue to observe significant increases in fundraising following SEC investigations, with a specific increase in new funds being formed three years and beyond the end of the investigation (column 1). However, we observe a more immediate increase in the number of funds formed (column 2) and the amount of capital raised (column 3) in the first year after the SEC investigation initiation. This provides additional evidence on the timing of fundraising changes following SEC investigations.

One concern with our finding that SEC investigations increase private fund advisers' fundraising, disclosure, and governance is that these results could be driven by the SEC's ultimate enforcement actions against advisers, rather than advisers' responses to non-public investigations. About 29% of investigations in our sample lead to enforcements. To assess whether our findings are due to SEC investigations or the actual enforcement of misconduct, we estimate Equation 1 replacing our *SEC×Post* indicator with indicators, *Enforce* and *Non-Enforce*, interacted with *SEC×Post* (i.e., splitting the "treat" indicator into 2 groups) capturing whether the SEC's investigation ultimately leads to enforcement. We present the results from this estimation in Table 9. We find evidence that the increase in new fund formation, count of new funds, and the amount of new funds raised is similar across investigated advisers with and without ultimate enforcement actions taken by the SEC.[25] This suggests that advisers alter behavior, such as auditor and internal controls choices as well as disclosure quantity, tone, and content, in response to investigations and not only because of SEC enforcement. We also acknowledge that investigations *without* enforcement serve as a credible signal that an adviser's practices do not amount to misconduct,

[25] In untabulated analyses, we also find that results for disclosure and governance generally do not vary depending on whether the investigation ultimately leads to enforcement.

and this certification may aid fundraising. The similar coefficients on enforced and non-enforced treated advisers in Table 9 suggests this is not the case, but we cannot rule it out.

Next, we explore whether the relation between fundraising and SEC investigations varies across advisers managing different types of funds. We separate advisers based on whether they advise at least one buyout, hedge, venture capital, or real estate fund according to fund type on Form ADV, Part 1. These groups are not mutually exclusive because advisers can manage multiple fund types. We estimate Equation 1 separately for each of these subsamples and present the results in Table 10, Panels A (buyout and hedge funds) and B (venture capital and real estate funds). We find evidence suggesting advisers of all types of funds have increased fundraising activities following SEC investigations (i.e., positive coefficient on *SEC*×*Post*), though the results vary in statistical significance, likely due to lower power as we split into smaller samples. The most consistent evidence of our baseline results occurs for advisers of hedge funds. Overall, results are consistent with positive effects of SEC investigations on fundraising across fund types.

We also investigate the determinants of SEC investigations. This analysis provides two insights. First, it informs advisers as to their attributes that relate to SEC investigations. Second, it evaluates the extent to which observable fund attributes are associated with SEC investigation initiation. Our determinants model first regresses the initiation year of an SEC investigation (*Investigation*) in year *t+1* on the control variables in year *t*, which mirrors equation (1) but excludes the SEC investigation independent variables. We also supplement this model by adding our other dependent variables from our prior tests measured in year *t* as independent variables. We exclude the years after the initial year of SEC investigation for advisers being investigated from this test. Table 11 presents results. We find that adviser size, age, performance, and past misconduct are positively associated with investigations. We also find that longer Form ADV, Part 2

disclosures with more legal language are positively associated with investigations. We control for and entropy balance on these attributes throughout our tests to mitigate concerns over the SEC's selection of advisers to investigate based on advisers' observable attributes. We also conduct an untabulated changes analysis to examine whether variation in fund attributes may attract SEC attention. We find few notable results in this analysis, except that we find some evidence that SEC investigations are positively associated with increases in the number of investors in a fund.

In a related analysis, we revisit the risk of omitted variables bias. Though we are unable to rule out this risk, Oster (2019) develops a method that quantifies how important omitted variables would need to be, relative to observables, to produce a treatment effect of zero: Oster's (2019) δ. For example, when δ=2, omitted variables must be twice as important as observables to produce a treatment effect of 0 (Oster 2019, 195). Oster suggests that δ between 0 and 1 raises concerns that including additional variables could generate a zero treatment effect. Oster's (2019) approach requires that we assume a maximum explainable variation (her "R^2_{Max}"). Because regressions typically control for well-established determinants (e.g., performance, in our setting), she suggests setting R^2_{Max} equal to the regression estimated R^2 * 1.3, where multiplying by a larger constant results in a higher possibility for omitted variables to explain results (i.e., assuming less variation is explained by observed variables). Prior work (e.g., Bernard et al. 2021) takes this approach. Across all of our results, we find $\delta < -1$.[26] Bernard et al. (2021) note that negative δ indicates that the estimated coefficients on our variables of interest are likely somewhat understated rather than overstated. Thus, omitted variables (including selection effects) are unlikely to drive our results.

As a final analysis, we examine advisers' minimum investment requirements for their funds.

[26] Our conclusion from the Oster (2019) test is unchanged when we exclude adviser fixed effects, in which case we estimate $\delta > 11$. This suggests that an omitted variable would need to be 11 times as important as observables to produce a treatment effect of zero.

Lower minimum investments required from LPs broaden the pool of potential investors, noting that all investors must still meet the accredited investor definition. First, we examine whether SEC investigations are associated with changes in advisers minimum investment (*MinInv*), the weighted average of the natural logarithm of an adviser's funds minimum investments. Table 12, Panels A and B present results. Panel A reports univariate statistics within treated advisers, indicating that minimum investment decreases both during and after SEC investigations. Panel B estimates equation (1), but replaces fundraising with *MinInv* as the dependent variable. We again find that minimum investments decrease for investigated advisers, suggesting that investigations may prompt advisers to broader their pool of investors.

Table 12, Panel C, column 1 examines the association between minimum investment and fundraising. We split *SEC×Post* into two indicators depending on whether the adviser's *MinInv* decreases (*Dec_MinInv*) or not (*NoDec_MinInv*). We find that the increase in fundraising concentrates in advisers that decrease their minimum investment. Panel C reports results for *NewFund_Ind*, but results hold for *NewFund_Ct* and *NewFund_Value* (untabulated). In Panel C, columns 2 to 5, we repeat our analysis from Table 7 (channel tests) but further split the advisers with decreases in minimum investment by their changes in disclosure. We find that, except in column 2, increases in fundraising concentrate in those advisers that both decrease their minimum investment and increase their disclosure transparency. In sum, results suggest that the fundraising benefits associated with SEC investigations concentrate in advisers that both seek to expand their investor base (i.e., reduce their minimum investment) and improve their disclosures.

VII. CONCLUSION

We examine the effects of SEC investigations on private fund advisers. We propose that SEC oversight could improve advisers' reporting and governance, facilitating fundraising. However, private fund LPs may view investigations as negative signals, reducing fundraising

ability, or may focus on private communication with fund advisers or attributes other than reporting and disclosure, suggesting no effect of SEC oversight. Consistent with benefits of SEC oversight, we find an increase in the number of new funds formed and the amount of capital raised by private fund advisers following SEC investigations. Consistent with our proposed mechanisms, advisers' governance over financial reporting and disclosure transparency increase following investigations. Mechanism tests suggest that disclosure, rather than governance, improvements drive increased fundraising. These results further concentrate in advisers that reduce their investors' required minimum investment following investigations, suggesting that an expanding investor base also drives results. Altogether, our evidence suggests that SEC investigations provide indirect oversight of advisers, meeting the information demands of private fund investors and facilitating capital formation. These results provide new insight for regulators as they increasingly focus on private funds. Further, our results contribute to the longstanding debate over the effectiveness of regulatory interventions in private markets.

Appendix A

Variable Definitions

Variable	Definition	Source
Age	The natural logarithm of the number of years since the adviser first was required to File Form ADV.	ADV Part 1
Big4	The weighted average for adviser *i* in year *t* of an indicator variable that equals one if the adviser's fund(s) engages a Big 4 accounting firm and equals zero otherwise. The weight used in this calculation is the natural logarithm of each fund's market value.	ADV Part 1
BO_only	An indicator variable equal to one if the GP only advises buyout funds in year *t*.	ADV Part 1
CorpGov	The percentage of sentences classified by the ESG FinBERT model as relating to "corporate governance" in adviser *i*'s Form ADV, Part 2 in year *t*.	ADV Part 2
Distance	The natural logarithm of one plus the number of miles between adviser *i*'s principal office (based on their postal code) and the SEC regional office that has jurisdiction over the adviser.	ADV Part 2
Ethics	The percentage of sentences classified by the ESG FinBERT model as relating to "business ethics" in adviser *i*'s Form ADV, Part 2 in year *t*.	ADV Part 2
HF_only	An indicator variable equal to one if the GP only advises hedge funds in year *t*.	ADV Part 1
IC	An indicator variable equal to one if the GP obtains an internal controls audit in year *t* and zero otherwise.	ADV Part 1
Investigate_1	An indicator variable equal to one for observations that are one year after the opening of an SEC investigation and before the close of the investigation, and zero otherwise.	FOIA
Investigate_2	An indicator variable equal to one for observations that are two or more years after the opening of an SEC investigation and before the close of the investigation, and zero otherwise.	FOIA
Investigation	An indicator variable equal to one if the GP is investigated by the SEC in year *t*+1, and 0 otherwise.	FOIA
IRR	The average final fund performance for all funds managed by GP *i* during year *t*. Fund performance (IRR) is defined as net internal rate of return (IRR %). If the adviser is not covered by Preqin, and therefore has a missing IRR value, we use the average internal rate of return for all GPs in year *t*.	Preqin
Legal	The percentage of words included in the Campbell et al. (2014) legal risk word list in adviser *i*'s Form ADV, Part 2 in year *t*.	ADV Part 2
LnAUM	The natural logarithm of the total assets under management for adviser *i* in year *t*.	ADV Part 1
LnOwners	The weighted average for adviser *i* in year *t* of the natural logarithm of the raw number of investors in the adviser's fund(s). The weight used in this calculation is the natural logarithm of each fund's assets under management.	ADV Part 1
MinInv	The weighted average for adviser *i* in year *t* of the natural logarithm of the minimum investment of the adviser's fund(s). The weight used in this calculation is the natural logarithm of each fund's assets under management.	ADV Part 1
Misconduct	Indicator variable equal to one if GP *i* discloses any type of misconduct prior to year *t*, which is identified by answering 'yes' to any question in Item 11 of Form ADV, Part 1A, and zero otherwise.	ADV Part 1
NewFund_Count	The number of adviser *i*'s new funds raised in year *t*.	ADV Part 1
NewFund_Ind	An indicator variable equal to one if the GP formed at least 1 new fund in year *t*, and zero otherwise.	ADV Part 1
NewFund_Value	The natural logarithm of the assets under management for all new funds raised in year *t*, and zero if the adviser raises no new funds in year *t*.	ADV Part 1
OwnedFoF	The weighted average for adviser *i* in year *t* of the percentage of the adviser's fund(s) owned by other investment funds (often known as funds of funds). The weight used in this calculation is the natural logarithm of each fund's assets under management.	ADV Part 1

OwnedNonUS	The weighted average for adviser *i* in year *t* of the percentage of the adviser's fund(s) owned by non-U.S. investors. The weight used in this calculation is the natural logarithm of each fund's assets under management.	ADV Part 1
OwnedRelated	The weighted average for adviser *i* in year *t* of the percentage of the adviser's fund(s) owned by the investment adviser or a related party. The weight used in this calculation is the natural logarithm of each fund's assets under management.	ADV Part 1
Pre-Investigate_1	An indicator variable equal to one for observations that are 1 year prior to the opening of an SEC investigation, and zero otherwise.	FOIA
Pre-Investigate_2	An indicator variable equal to one for observations that are 2 years prior to the opening of an SEC investigation, and zero otherwise.	FOIA
Pre-Investigate_3	An indicator variable equal to one for observations that are 3 years prior to the opening of an SEC investigation, and zero otherwise.	FOIA
SEC×After	An indicator variable equal to one for all investigated GP-years after the close of an SEC investigation (i.e., the GP's year-end falls after the close of an investigation), and zero otherwise	FOIA
SEC×During	An indicator variable equal to one for all investigated GP-years during an SEC investigation (i.e., the GP's year-end falls within the investigation period), and zero otherwise	FOIA
SEC×Post	An indicator variable equal to one for all investigated GP-years during or after an SEC investigation, and zero otherwise	FOIA
SentCount	The natural logarithm of the number of sentences in adviser *i*'s Form ADV, Part 2 in year *t*.	ADV Part 2
Tone	The percentage of sentences classified by the Sentiment FinBERT model as positive minus the percentage of sentences classified by the Sentiment FinBERT model as negative in adviser *i*'s Form ADV, Part 2 in year *t*.	ADV Part 2

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Table 1
Sample Selection

	Advisers	Adviser-years
Adviser year observations with positive assets under management from 2011 to 2019	7,309	39,036
Less:		
observations with main operations in foreign countries	635	3,047
observations missing Form ADV Part 2 data	327	1,218
observations for advisers being investigated multiple times within the sample period	9	72
observations with partial years under investigation	7	210
observations with missing control variables and singletons	922	1,895
Final Sample	**5,409**	**32,594**

This table describes the sample selection process and the attrition in adviser-year observations.

Table 2
Descriptive Statistics and Univariate Analyses

Panel A: Descriptive Statistics

Variable	Obs	Mean	StdDev	p10	p25	p50	p75	p90
SEC×Post	32,594	0.020	0.141	0.000	0.000	0.000	0.000	0.000
SEC×During	32,594	0.008	0.086	0.000	0.000	0.000	0.000	0.000
SEC×After	32,594	0.013	0.112	0.000	0.000	0.000	0.000	0.000
NewFund_Ind	32,594	0.234	0.424	0.000	0.000	0.000	0.000	1.000
NewFund_Count	32,594	0.708	2.450	0.000	0.000	0.000	0.000	2.000
NewFund_Value	32,594	4.372	7.964	0.000	0.000	0.000	0.000	19.172
SentCount	32,594	5.666	0.503	5.050	5.328	5.638	5.984	6.328
Tone	32,594	-9.094	7.083	-18.966	-13.714	-8.473	-3.687	-0.413
Ethics	32,594	5.147	2.178	2.577	3.521	4.854	6.438	8.122
CorpGov	32,594	18.183	6.785	10.314	13.125	17.122	22.222	27.622
Legal	32,594	0.211	0.151	0.065	0.110	0.178	0.272	0.394
Big4	32,594	0.537	0.474	0.000	0.000	0.777	1.000	1.000
IC	32,594	0.029	0.169	0.000	0.000	0.000	0.000	0.000
LnAUM	32,594	20.643	1.832	18.558	19.341	20.436	21.768	23.131
Age	32,594	1.841	0.789	0.693	1.386	1.946	2.485	2.773
LnOwners	32,594	2.963	1.014	1.609	2.261	2.996	3.679	4.248
Misconduct	32,594	0.128	0.334	0.000	0.000	0.000	0.000	1.000
IRR	32,594	13.453	2.217	13.057	13.058	13.262	13.560	13.918
HF_only	32,594	0.427	0.495	0.000	0.000	0.000	1.000	1.000
BO_only	32,594	0.202	0.401	0.000	0.000	0.000	0.000	1.000
OwnedRelated	32,594	16.931	22.444	0.670	2.000	7.714	22.283	47.678
OwnedFoF	32,594	10.937	17.917	0.000	0.000	1.031	15.413	35.712
OwnedNonUS	32,594	19.464	25.395	0.000	0.000	7.816	31.821	57.049
Distance	32,594	2.681	1.824	0.531	1.589	1.723	4.499	5.460
MinInv	32,594	12.057	3.864	6.909	11.513	13.122	13.896	15.425

Panel B: Comparison of New Fund Formation within Investigated Advisers

		NewFund Ind	***NewFund Count***	***NewFund Value***	**Obs**
Pre investigation	(1)	0.298	1.274	5.702	954
During investigation	(2)	0.380	3.041	7.481	245
After investigation	(3)	0.406	1.862	7.883	412
Difference	(2) vs (1)	0.082**	1.767***	1.779***	
	(3) vs (1)	0.108***	0.588**	2.181***	

Panel C: Comparison of Disclosure within Investigated Advisers

		SentCount	***Tone***	***Ethics***	***CorpGov***	***Legal***	**Obs**
Pre investigation	(1)	5.849	-9.110	4.732	17.597	0.222	954
During investigation	(2)	6.027	-9.186	4.788	16.728	0.254	245
After investigation	(3)	5.970	-10.662	4.755	17.629	0.254	412
Difference	(2) vs (1)	0.178***	-0.076	0.121***	-0.869*	0.032***	
	(3) vs (1)	0.121***	-1.552***	0.119***	0.032	0.032***	

Table 2 (cont'd)

Panel D: Comparison of Governance within Investigated Advisers

		Big4	***IC***	**Obs**
Pre investigation	(1)	0.539	0.074	954
During investigation	(2)	0.533	0.126	245
After investigation	(3)	0.591	0.075	412
Difference	(2) vs (1)	-0.006	0.052***	
	(3) vs (1)	0.052*	0.001	

Panel E: Univariate Statistics Pre-Entropy Balancing

	Treated Advisers				**Control Advisers**					
	Obs	Mean	Variance	Skewness	Obs	Mean	Variance	Skewness	Difference	t-stat
LnAUM	657	21.780	4.695	0.215	31,937	20.620	3.303	0.485	-1.162***	(-16.15)
Age	657	2.409	0.213	-0.733	31,937	1.829	0.625	-0.636	-0.580***	(-18.73)
LnOwners	657	3.083	0.954	-0.056	31,937	2.961	1.029	-0.047	-0.122***	(-3.06)
Misconduct	657	0.406	0.242	0.381	31,937	0.122	0.107	2.305	-0.284***	(-21.72)
IRR	657	13.680	8.866	1.879	31,937	13.450	4.834	2.532	-0.232***	(-2.66)
HF_only	657	0.330	0.222	0.722	31,937	0.429	0.245	0.288	0.0984***	-5.050
BO_only	657	0.172	0.143	1.738	31,937	0.203	0.162	1.480	0.0306*	-1.930
OwnedRelated	657	15.010	287.200	1.741	31,937	16.970	508.100	2.017	1.964**	-2.220
OwnedFoF	657	10.940	288.500	2.186	31,937	10.940	321.700	2.145	-0.002	(-0.00)
OwnedNonUS	657	19.290	487.100	1.185	31,937	19.470	648.200	1.441	0.174	-0.170
Distance	657	2.891	3.735	0.386	31,937	2.677	3.317	0.493	-0.214***	(-2.98)

This table presents descriptive statistics of the variables used throughout our analyses as well as univariate analysis for new fund formation surrounding SEC investigations. Panel A presents descriptives statistics. All continuous variables are winsorized at the 1st and 99th percentiles. Panel B presents univariate statistics for our new fund formation variables, *NewFund_Ind, NewFund_Count*, and *NewFund_Value*, before, during, and after SEC investigations. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. *During* (*After*) investigation covers years *t* where the SEC investigation is underway (has been completed). Panels C and D present univariate statistics for our disclosure and governance variables. Panel E presents descriptive statistics for our sample of advisers that are subject to an SEC investigation at some point during our sample period (treated) and those sample advisers that are never subject to an SEC investigation during our sample period (control) before entropy balancing. Appendix A provides variable descriptions. ***, **, * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 3
Analysis of New Funds after SEC Investigations

Panel A: Unweighted Regressions

DV=	(1) *NewFund Ind*	(2) *NewFund Ind*	(3) *NewFund Count*	(4) *NewFund Count*	(5) *NewFund Value*	(6) *NewFund Value*
SEC×Post	0.053*		0.918***		1.224**	
	(1.865)		(2.617)		(2.200)	
SEC×During		0.056		1.018**		1.220*
		(1.567)		(2.323)		(1.763)
SEC×After		0.052		0.848**		1.227*
		(1.568)		(2.212)		(1.910)
LnAUM	0.094***	0.094***	0.392***	0.392***	1.883***	1.883***
	(21.814)	(21.814)	(13.299)	(13.286)	(23.273)	(23.273)
Age	0.040***	0.040***	-0.159**	-0.159**	0.654***	0.654***
	(4.614)	(4.613)	(-2.560)	(-2.562)	(3.938)	(3.938)
LnOwners	-0.077***	-0.077***	-0.289***	-0.288***	-1.427***	-1.427***
	(-13.503)	(-13.501)	(-9.886)	(-9.862)	(-13.351)	(-13.349)
Misconduct	0.001	0.001	0.196*	0.197*	0.046	0.045
	(0.092)	(0.093)	(1.815)	(1.836)	(0.174)	(0.173)
IRR	0.001	0.001	0.015	0.015	0.046	0.046
	(0.415)	(0.414)	(0.872)	(0.870)	(0.841)	(0.841)
HF_only	-0.123***	-0.123***	-0.207***	-0.209***	-2.138***	-2.138***
	(-9.440)	(-9.444)	(-2.926)	(-2.941)	(-8.907)	(-8.908)
BO_only	-0.089***	-0.089***	-0.585***	-0.586***	-1.767***	-1.767***
	(-4.407)	(-4.410)	(-3.183)	(-3.191)	(-4.586)	(-4.588)
OwnedRelated	-0.000	-0.000	-0.000	-0.000	-0.003	-0.003
	(-0.381)	(-0.381)	(-0.371)	(-0.375)	(-0.849)	(-0.849)
OwnedFoF	0.001***	0.001***	0.003**	0.003**	0.015***	0.015***
	(2.953)	(2.951)	(2.527)	(2.517)	(3.110)	(3.109)
OwnedNonUS	0.001**	0.001**	0.003**	0.003**	0.012**	0.012**
	(2.138)	(2.137)	(2.495)	(2.494)	(2.394)	(2.394)
Distance	-0.004	-0.004	-0.011	-0.011	-0.083	-0.083
	(-0.607)	(-0.606)	(-0.241)	(-0.235)	(-0.620)	(-0.620)
Observations	32,594	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.322	0.322	0.444	0.444	0.345	0.345
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

Table 3 (cont'd)

Panel B: Entropy Balanced Regressions

DV=	(1) *NewFund Ind*	(2) *NewFund Ind*	(3) *NewFund Count*	(4) *NewFund Count*	(5) *NewFund Value*	(6) *NewFund Value*
SEC×Post	0.081**		1.689**		1.737**	
	(2.300)		(2.008)		(2.452)	
SEC×During		0.070*		1.586*		1.474*
		(1.780)		(1.846)		(1.887)
SEC×After		0.105**		1.899**		2.272***
		(2.492)		(2.063)		(2.699)
LnAUM	0.078***	0.079***	0.477***	0.486***	1.645***	1.668***
	(5.206)	(5.311)	(4.808)	(4.518)	(5.964)	(6.111)
Age	-0.021	-0.025	-0.820**	-0.860**	-0.623	-0.725
	(-0.321)	(-0.385)	(-2.003)	(-2.102)	(-0.505)	(-0.579)
LnOwners	-0.161***	-0.160***	-0.579***	-0.574***	-3.047***	-3.035***
	(-7.464)	(-7.473)	(-3.734)	(-3.745)	(-7.143)	(-7.155)
Misconduct	-0.083**	-0.086**	0.303	0.276	-1.451**	-1.519**
	(-2.276)	(-2.355)	(1.392)	(1.330)	(-2.158)	(-2.261)
IRR	0.007	0.007	-0.091	-0.089	0.072	0.078
	(1.489)	(1.518)	(-1.395)	(-1.390)	(0.719)	(0.754)
HF_only	-0.099**	-0.097**	0.030	0.049	-1.686**	-1.637**
	(-2.472)	(-2.382)	(0.155)	(0.240)	(-2.236)	(-2.128)
BO_only	-0.019	-0.018	-0.355	-0.340	-0.587	-0.548
	(-0.537)	(-0.464)	(-0.923)	(-0.852)	(-0.845)	(-0.740)
OwnedRelated	-0.001*	-0.001*	-0.004	-0.004	-0.034**	-0.033**
	(-1.721)	(-1.677)	(-0.754)	(-0.696)	(-2.177)	(-2.129)
OwnedFoF	0.001	0.001	0.001	0.001	0.023	0.024
	(0.908)	(0.951)	(0.174)	(0.203)	(0.997)	(1.048)
OwnedNonUS	0.000	0.000	0.013**	0.013**	0.008	0.008
	(0.403)	(0.403)	(2.078)	(2.073)	(0.361)	(0.360)
Distance	-0.002	-0.002	0.142	0.142	-0.124	-0.123
	(-0.179)	(-0.176)	(1.065)	(1.084)	(-0.478)	(-0.476)
Observations	32,594	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.516	0.516	0.711	0.711	0.555	0.555
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of new fund formation on SEC investigations. Panel A (B) presents estimated from unweighted OLS (weighted entropy balanced) regressions. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t.* Columns 1, 3, and 5 report results using *SEC×Post*, an indicator equal to one for GP-years during or after an SEC investigation, and zero otherwise. Columns 2, 4, and 6 report results using *SEC×During* (*SEC×After*), an indicator variable equal to one for all GP-years during (after completion of) an investigation by the SEC and zero otherwise. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 4
Analysis of New Funds after SEC Investigations, by Adviser Size and Inside Ownership

Panel A: Cross-Sectional Analysis by Adviser Size (i.e., Assets Under Management)

Sample=	**(1) Large**	**(2) Small**	**(3) Large**	**(4) Small**	**(5) Large**	**(6) Small**
DV=	***NewFund Ind***	***NewFund Ind***	***NewFund Count***	***NewFund Count***	***NewFund Value***	***NewFund Value***
SEC×Post	0.076**	-0.011	1.582*	0.007	1.649**	-0.221
	(1.978)	(-0.163)	(1.739)	(0.054)	(2.106)	(-0.195)
Observations	16,026	15,965	16,026	15,965	16,026	15,965
Adjusted R2	0.506	0.407	0.712	0.513	0.54	0.391
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

Panel B: Cross-Sectional Analysis by Adviser Inside Ownership

Sample=	**(1) High Inside Ownership**	**(2) Low Inside Ownership**	**(3) High Inside Ownership**	**(4) Low Inside Ownership**	**(5) High Inside Ownership**	**(6) Low Inside Ownership**
DV=	***NewFund Ind***	***NewFund Ind***	***NewFund Value***	***NewFund Count***	***NewFund Value***	***NewFund Value***
SEC×Post	0.116**	0.053	1.281	0.641	2.324**	0.917
	(2.462)	(0.757)	(1.328)	(1.265)	(2.401)	(0.685)
Observations	15,858	15,890	15,858	15,890	15,858	15,890
Adjusted R2	0.516	0.522	0.717	0.694	0.558	0.554
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of new fund formation on SEC investigations in the cross-section using the weighted entropy balanced sample. Panel A (B) presents the results on fund formation based on the cross-section of advisers by size (inside ownership). For each cross-section, we split our sample into large and small (high and low inside ownership) in Panel A (B) based on median splits of *LnAUM* (*OwnedRelated*) in each year. In each panel, columns 1 and 2, 3 and 4, and 5 and 6 presents results using *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value* as the dependent variable, respectively. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 5
Analysis of Disclosure after SEC Investigations

Panel A: Analysis of Overall Measures of Disclosure Quantity and Tone

	(1)	(2)	(3)	(4)
DV=	***SentCount***	***SentCount***	***Tone***	***Tone***
SEC×Post	0.069**		-0.946**	
	(2.175)		(-1.993)	
SEC×During		0.085**		-1.139**
		(2.515)		(-2.303)
SEC×After		0.042		-0.552
		(1.305)		(-1.196)
LnAUM	0.069***	0.068***	-0.061	-0.045
	(4.583)	(4.575)	(-0.339)	(-0.249)
Age	0.270***	0.280***	-3.914***	-3.989***
	(3.770)	(3.952)	(-2.811)	(-2.873)
LnOwners	0.004	0.003	-0.778**	-0.768**
	(0.216)	(0.166)	(-2.019)	(-2.008)
Misconduct	0.038**	0.041**	-0.237	-0.287
	(2.089)	(2.349)	(-1.011)	(-1.250)
IRR	-0.013*	-0.014*	0.094**	0.099**
	(-1.831)	(-1.943)	(1.974)	(2.130)
HF_only	-0.019	-0.022	0.468	0.504
	(-0.888)	(-0.999)	(1.473)	(1.589)
BO_only	-0.005	-0.006	0.158	0.186
	(-0.094)	(-0.119)	(0.336)	(0.404)
OwnedRelated	-0.001	-0.001	-0.000	0.000
	(-1.035)	(-1.141)	(-0.024)	(0.065)
OwnedFoF	0.002**	0.002**	-0.016***	-0.016***
	(2.353)	(2.383)	(-2.590)	(-2.614)
OwnedNonUS	0.001*	0.001*	0.002	0.002
	(1.845)	(1.861)	(0.241)	(0.233)
Distance	-0.012	-0.011	-0.112	-0.112
	(-0.772)	(-0.768)	(-0.728)	(-0.722)
Observations	32,594	32,594	32,594	32,594
Adjusted R2	0.910	0.911	0.905	0.905
Adviser FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser

Table 5 (cont'd)

Panel B: Analysis of Specific Disclosure Content

	(1)	(2)	(3)	(4)	(5)	(6)
DV=	***Ethics***	***Ethics***	***CorpGov***	***CorpGov***	***Legal***	***Legal***
SEC×Post	0.268**		0.079		0.025***	
	(2.015)		(0.144)		(3.072)	
SEC×During		0.209		0.122		0.027***
		(1.488)		(0.213)		(3.073)
SEC×After		0.387**		-0.009		0.022**
		(2.384)		(-0.018)		(2.492)
LnAUM	-0.188***	-0.183***	-0.243*	-0.246*	-0.000	-0.001
	(-2.736)	(-2.692)	(-1.851)	(-1.887)	(-0.098)	(-0.134)
Age	-0.015	-0.038	-1.985**	-1.968**	0.019	0.019
	(-0.029)	(-0.076)	(-2.530)	(-2.490)	(0.788)	(0.813)
LnOwners	-0.130	-0.127	-0.177	-0.179	-0.001	-0.001
	(-1.426)	(-1.397)	(-0.694)	(-0.705)	(-0.256)	(-0.271)
Misconduct	0.075	0.060	-0.168	-0.157	0.006	0.007
	(0.516)	(0.431)	(-0.846)	(-0.796)	(1.319)	(1.390)
IRR	0.024	0.025	0.129***	0.128***	-0.003	-0.003
	(1.225)	(1.343)	(2.966)	(2.933)	(-1.411)	(-1.437)
HF_only	0.059	0.070	0.023	0.015	-0.006	-0.006
	(0.718)	(0.824)	(0.095)	(0.061)	(-0.920)	(-0.956)
BO_only	0.163	0.171	0.075	0.069	-0.002	-0.002
	(0.692)	(0.745)	(0.248)	(0.225)	(-0.120)	(-0.135)
OwnedRelated	-0.005	-0.005	-0.006	-0.006	-0.000*	-0.000*
	(-1.608)	(-1.557)	(-0.990)	(-1.018)	(-1.767)	(-1.811)
OwnedFoF	0.002	0.002	-0.024***	-0.025***	0.000	0.000
	(0.747)	(0.752)	(-3.783)	(-3.795)	(1.168)	(1.181)
OwnedNonUS	0.000	0.000	-0.000	-0.000	0.000	0.000
	(0.121)	(0.110)	(-0.035)	(-0.032)	(0.202)	(0.207)
Distance	-0.012	-0.012	-0.063	-0.063	0.002	0.002
	(-0.258)	(-0.262)	(-0.469)	(-0.466)	(0.821)	(0.822)
Observations	32,594	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.858	0.858	0.889	0.889	0.894	0.894
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of GP disclosure choices surrounding SEC investigations using the weighted entropy balanced sample. Panel A presents results with the dependent variables *SentCount* and *Tone*. Panel B presents results with the dependent variables *Ethics*, *CorpGov*, and *Legal*. *SentCount* is the natural logarithm of the number of sentences reported in Form ADV, Part 2. *Tone* is the percentage of sentences classified by the Sentiment FinBERT model as positive and minus the percentage classified as negative in Form ADV Part 2. *Ethics* is the percentage of Form ADV Part 2 sentences classified by the ESG FinBERT model as discussing the topic of 'business ethics.' *CorpGov* is the percentage of Form ADV Part 2 sentences classified by the ESG FinBERT model as discussing the topic of 'corporate governance.' *Legal* is the percentage of words in Form ADV Part 2 that are included in the legal risk word list developed by Campbell et al. (2014). Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 6
Analysis of Auditor and Internal Controls Choice after SEC Investigations

DV=	(1) *Big4*	(2) *Big4*	(3) *IC*	(4) *IC*
SEC×Post	0.031*		0.053	
	(1.662)		(1.556)	
SEC×During		0.052**		0.048
		(2.234)		(1.374)
SEC×After		-0.010		0.063*
		(-0.452)		(1.846)
LnAUM	0.033***	0.031***	0.006	0.006
	(2.701)	(2.697)	(0.871)	(0.944)
Age	0.079*	0.087*	0.014	0.012
	(1.673)	(1.847)	(0.599)	(0.501)
LnOwners	0.024	0.023	0.006	0.006
	(1.371)	(1.322)	(1.060)	(1.096)
Misconduct	0.000	0.006	0.017**	0.016**
	(0.016)	(0.207)	(2.537)	(2.267)
IRR	0.002	0.001	0.000	0.000
	(1.259)	(1.013)	(0.141)	(0.354)
HF_only	0.045	0.042	-0.036*	-0.035*
	(1.429)	(1.350)	(-1.838)	(-1.794)
BO_only	0.038***	0.035***	-0.141*	-0.141*
	(2.955)	(2.661)	(-1.719)	(-1.717)
OwnedRelated	0.001	0.001	-0.000	-0.000
	(1.345)	(1.297)	(-0.120)	(-0.078)
OwnedFoF	-0.001	-0.001	0.000	0.000
	(-1.202)	(-1.262)	(1.187)	(1.216)
OwnedNonUS	0.001	0.001	-0.000	-0.000
	(1.145)	(1.180)	(-1.306)	(-1.309)
Distance	0.003	0.003	0.012	0.012
	(0.144)	(0.149)	(1.257)	(1.274)
Observations	32,594	32,594	32,594	32,594
Adjusted R2	0.891	0.892	0.812	0.812
Adviser FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of Big 4 auditor usage and audits of internal controls surrounding SEC investigations using the weighted entropy balanced sample. Columns 1 and 2 present results with the dependent variable, *Big4*, which is calculated as the weighted average by adviser *i* in year *t* of an indicator variable that equals one if an adviser's fund *j* engages a Big 4 auditor and equals zero otherwise. The weight used in this calculation is the natural logarithm of each fund's assets under management. Columns 3 and 4 present results using the dependent variable, *IC*, which is an indicator variable that equals one if an adviser obtains an audit over their internal controls and equals zero otherwise. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 7
Analysis of Channels Underlying Changes in Fundraising

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
DV=	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***
SEC×Post × IncSentCount	0.103***	2.082**	2.163***									
	(2.826)	(2.195)	(2.917)									
SEC×Post × NoIncSentCount	-0.077	-1.144***	-1.332									
	(-0.742)	(-4.883)	(-0.648)									
SEC×Post × IncTone				0.007	-2.244**	-0.028						
				(0.107)	(-1.975)	(-0.021)						
SEC×Post × NoIncTone				0.102***	2.797***	2.234***						
				(2.579)	(2.993)	(2.801)						
SEC×Post × IncEthics							0.092**	2.265*	1.942**			
							(2.115)	(1.713)	(2.197)			
SEC×Post × NoIncEthics							0.066	0.878	1.448			
							(1.217)	(1.026)	(1.325)			
SEC×Post × IncLegal										0.110***	1.975**	2.387***
										(3.007)	(1.987)	(3.203)
SEC×Post × NoIncLegal										-0.069	0.182	-1.686
										(-0.780)	(0.221)	(-1.069)
Observations	32,594	32,594	32,594	32,594	32,594	32,594	32,594	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.516	0.712	0.555	0.516	0.714	0.555	0.516	0.711	0.555	0.516	0.712	0.555
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of the channel through which SEC investigations relate to fundraising using the weighted entropy balanced sample. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. We replace *SEC×Post* in these regressions with two variables dividing *SEC×Post* into groups based on the GP's change in disclosure around SEC investigations. *IncSentCount* (*NoIncSentCount*) is an indicator equal to one if a GP increased (did not increase) *SentCount* after the initiation of an SEC investigation. *IncTone* (*NoIncTone*) is an indicator equal to one if a GP increased (did not increase) *Tone* after the initiation of an SEC investigation. *IncEthics* (*NoIncEthics*) is an indicator equal to one if a GP increased (did not increase) *Ethics* after the initiation of an SEC investigation. *IncLegal* (*NoIncLegal*) is an indicator equal to one if a GP increased (did not increase) *Legal* after the initiation of an SEC investigation. Adviser fixed effects absorb the main effect of each of these categories of changes in disclosure. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 8
Analysis of Parallel Trends Assumption

DV=	(1) *NewFund Ind*	(2) *NewFund Count*	(3) *NewFund Value*
Pre-Investigate_3	0.002	0.414	0.468
	(0.021)	(0.417)	(0.261)
Pre-Investigate_2	0.095	2.283	2.29
	(1.217)	(1.448)	(1.481)
Pre-Investigate_1	0.041	2.682	1.261
	(0.519)	(1.434)	(0.796)
Investigate_1	0.120	2.889*	2.723*
	(1.594)	(1.816)	(1.792)
Investigate_2	0.091	3.571*	2.374
	(1.215)	(1.941)	(1.578)
SEC×After	0.142*	3.535**	3.368**
	(1.925)	(2.113)	(2.249)
Observations	32,594	32,594	32,594
Adjusted R2	0.517	0.714	0.555
Controls	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser

This table presents regression estimates of fund formation surrounding SEC investigations using the weighted entropy balanced sample. Columns 1, 2, and 3 present results using the dependent variable *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value*, respectively. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. *Pre-Investigate_3*, *Pre-Investigate_2*, and *Pre-Investigate_1* are indicator variables equal to one for observations that are 3, 2, and 1 years prior to the opening of an SEC investigation, respectively, and zero otherwise. *Investigate_1* (*Investigate_2*) are indicator variables equal to one for observations that are one (two or more) years after the opening of an SEC investigation and before the close of the investigation, and zero otherwise (i.e., *Investigate_1 + Investigate_2 = SEC×During*). *SEC×After,* is an indicator equal to one for all adviser-years after the close of an SEC investigation of the adviser and zero otherwise. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 9
Analysis of SEC Enforcement following Investigation

DV=	**(1)** ***NewFund Ind***	**(2)** ***NewFund Count***	**(3)** ***NewFund Value***
SEC×Post × Enforce	0.057	1.258	0.856
	(0.871)	(1.094)	(0.671)
SEC×Post × Non-Enforce	0.088**	1.824*	2.014**
	(2.154)	(1.667)	(2.441)
Observations	32,602	32,602	32,602
Adjusted R2	0.516	0.711	0.554
Controls	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser

This table presents regression estimates of fund formation surrounding SEC investigations using the weighted entropy balanced sample. Columns 1, 2, and 3 present results using the dependent variable *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value*, respectively. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. We replace *SEC×Post* in these regressions with two variables dividing *SEC×Post* into groups based on whether the SEC investigation led to an enforcement action. Specifically, *SEC×Post × Enforce* (*SEC×Post × Non-Enforce*) is the interaction between *SEC×Post,* an indicator equal to one for all adviser-years during or after an SEC investigation of the adviser, multiplied by *Enforce (Non-Enforce)*, an indicator variable equal to one if adviser *i* was (was not) subject to an SEC enforcement action following their investigation and zero otherwise. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 10
Analysis of New Fund Formation after SEC Investigations, by Fund Type

Panel A: Buyout and Hedge Fund Advisers

	(1)	(2)	(3)	(4)	(5)	(6)
Sample=	**Buyout Fund Advisers**			**Hedge Fund Advisers**		
DV=	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***
SEC×Post	0.026	2.698**	0.797	0.090**	2.185**	1.957**
	(0.496)	(2.041)	(0.781)	(2.271)	(2.060)	(2.465)
Observations	11,056	11,056	11,056	19,320	19,320	19,320
Adjusted R2	0.542	0.711	0.572	0.546	0.715	0.590
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

Panel B: Venture Capital and Real Estate Fund Advisers

	(1)	(2)	(3)	(4)	(5)	(6)
Sample=	**Venture Capital Fund Advisers**			**Real Estate Fund Advisers**		
DV=	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***
SEC × Post	0.299	2.779**	5.844	0.101**	1.952	2.571***
	(1.134)	(2.519)	(1.288)	(2.124)	(1.070)	(2.740)
Observations	1,202	1,202	1,202	3,507	3,507	3,507
Adjusted R2	0.545	0.609	0.542	0.726	0.753	0.763
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents regression estimates of new fund formation on SEC investigations by fund type using the weighted entropy balanced sample. Panel A (B) presents the results on fund formation for advisers that manage buyout or hedge (venture capital or real estate) funds. For each cross-section, we split our sample into buyout, hedge, venture capital. or real estate fund advisers based on whether the adviser manages at least one of the corresponding fund types. In each panel, columns 1 and 4, 2 and 5, and 3 and 6 presents results using *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value* as the dependent variable, respectively. *NewFund_Ind* is an indicator variable equal to one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 11
Determinants of SEC Investigations

DV =	(1) ***Investigation***	(2) ***Investigation***
LnAUM	0.067***	0.044**
	(4.16)	(2.41)
Age	0.099**	0.089**
	(2.38)	(2.01)
LnOwners	0.048*	0.051*
	(1.88)	(1.91)
Misconduct	0.261***	0.221***
	(4.03)	(3.29)
IRR	0.022**	0.021**
	(2.36)	(2.18)
HF_only	-0.063	-0.012
	(-1.002)	(-0.191)
PE_only	-0.055	-0.049
	(-0.695)	(-0.603)
OwnedRelated	-0.002*	-0.003**
	(-1.918)	(-2.248)
OwnedFoF	0.002	0.002
	(1.31)	(1.38)
OwnedNonUS	-0.001	-0.001
	(-0.502)	(-0.519)
Distance	0.009	0.007
	(0.59)	(0.48)
New_Fund		0.082
		(1.27)
SentCount		0.233***
		(3.55)
Tone		0.006
		(1.20)
Ethics		-0.009
		(-0.667)
CorpGov		0.005
		(1.10)
Legal		0.479***
		(2.89)
Big4		-0.071
		(-1.173)
IC		0.077
		(0.62)
MinInv		-0.008
		(-1.201)
Observations	31,937	31,937
Pseudo R2	0.067	0.078
Area under ROC curve	0.734	0.755
Year FE	Yes	Yes
Clustered SE	Adviser	Adviser

This table presents the probit regression estimates of the initiation of an SEC investigation. The dependent variable *Investigation* is an indicator variable equal to one if an adviser *i* is being investigated by the SEC in year *t+1*. All the independent variables are measured in year *t*. The sample excludes the years after the initial year of SEC investigation for advisers being investigated by the SEC. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 12

Panel A: Comparison of Minimum Investment within Investigated Advisers

		MinInv	**Obs**
Pre investigation	(1)	12.166	954
During investigation	(2)	11.332	245
After investigation	(3)	11.623	412
Difference	(2) vs (1)	-0.834***	
	(3) vs (1)	-0.543**	

Panel B: Analysis of Adviser Minimum Investment after SEC Investigations

	(1)	**(2)**
DV=	***MinInv***	***MinInv***
SEC×Post	-0.404*	
	(-1.945)	
SEC×During		-0.328
		(-1.457)
SEC×After		-0.557***
		(-2.700)
Observations	32,594	32,594
Adjusted R2	0.922	0.922
Controls	Yes	Yes
Adviser FE	Yes	Yes
Year FE	Yes	Yes
Clustered SE	Adviser	Adviser

Table 12 (Cont'd)

Panel C: Cross-Sectional Analysis by Changes in Minimum Investment

DV =	**(1)** ***NewFund Ind***	**(2)** ***NewFund Ind***	**(3)** ***NewFund Ind***	**(4)** ***NewFund Ind***	**(5)** ***NewFund Ind***
SEC×Post×Dec_MinInv	0.138***				
	(3.49)				
SEC×Post×Dec_MinInv×IncSentCount		0.142***			
		(3.25)			
SEC×Post×Dec_MinInv×NoIncSentCount		0.103***			
		(3.45)			
SEC×Post×Dec_MinInv×IncLegal			0.152***		
			(3.95)		
SEC×Post×Dec_MinInv×NoIncLegal			0.027		
			(0.18)		
SEC×Post×Dec_MinInv×IncEthics				0.199***	
				(4.10)	
SEC×Post×Dec_MinInv×NoIncEthics				0.065	
				(1.08)	
SEC×Post×Dec_MinInv×IncTone					0.096
					(1.04)
SEC×Post×Dec_MinInv×NoIncTone					0.150***
					(3.61)
SEC×Post×NoDec_MinInv	0.016	0.016	0.017	0.016	0.016
	(0.29)	(0.29)	(0.29)	(0.29)	(0.29)
Observations	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.516	0.516	0.516	0.516	0.516
Controls	Yes	Yes	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser	Adviser	Adviser

This table presents analysis of advisers' minimum investment and fundraising surrounding SEC investigations. Panel A present summary statistics for changes in *MinInv* surrounding SEC investigations where *MinInv* is the weighted average for adviser *i* in year *t* of all of adviser *i*'s funds. The weight used in this calculation is the natural logarithm of each fund's assets under management. Panel B estimates a regression model using *MinInv* as the dependent variable using the weighted entropy balanced sample. Panel C is a cross-sectional analysis bases on changes in *MinInv* and other disclosure variables. *Dec_MinInv* (*NoDec_MinInv*) is an indicator variable equal to one if the adviser had a decrease (no decrease) in *MinInv* and zero otherwise. *IncSentCount* (*NoIncSentCount*) is an indicator variable equal to one if the adviser had an increase (no increase) in *SentCount* and zero otherwise. *IncLegal* (*NoIncLegal*) is an indicator variable equal to one if the adviser had an increase (no increase) in *Legal* and zero otherwise. *IncEthics* (*NoIncEthics*) is an indicator variable equal to one if the adviser had an increase (no increase) in *Ethics* and zero otherwise. *IncTone* (*NoIncTone*) is an indicator equal to one if a GP increased (did not increase) *Tone* after the initiation of an SEC investigation. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.