SEC Oversight of Private Equity and Hedge Funds

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January 14, 2025

Keywords: Private Equity, Buyout Funds, Venture Capital, Hedge Funds, Securities and Exchange Commission (SEC), Disclosure, Textual Analysis, Fundraising
JEL codes: G10, G20, G23, G24, M42, M48
EFM codes: 810, 540, 200, 710, 150
Data Availability: Data used in this study are available from sources identified in the paper.

We gratefully acknowledge the support of our respective institutions. We appreciate the support of the Plumhoff Endowed Chair in Accounting (Mason) and the Arthur Andersen, LLP Accounting Professorship (Utke).

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Abstract:

We examine the effect of Securities and Exchange Commission (SEC) investigations on the fundraising efforts of private fund investment advisers. We propose that SEC oversight could improve advisers' reporting and disclosure, facilitating capital formation. However, private fund investors may focus on private communication with funds 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, we find an increase in advisers' financial reporting and governance strictness, as well as increased disclosure transparency, following investigations. 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 markets.

I. Introduction

The Securities and Exchange Commission (SEC) oversees the U.S. financial markets, with a regulatory mandate that extends beyond public companies to include investment advisers and private funds, such as private equity funds, hedge funds, real estate funds, and others. These private funds control a significant and growing share of global assets, yet they are more opaque and subject to fewer external monitors than public companies or mutual funds. While substantial research has examined the SEC's role in regulating public companies and influencing corporate governance (e.g., Blackburne, Kepler, Quinn, and Taylor, 2021; Holzman, Marshall, and Schmidt, 2024), there is limited evidence on the effects of SEC oversight on private funds. This study provides initial insights into the effects of SEC investigations on private funds.

We examine three research questions regarding the impact of SEC investigations on private fund investment advisers' activities. First, we use a staggered difference-in-difference analysis to assess whether SEC investigations affect private fund advisers' ability to raise new funds and the amount of capital raised. Second, to explore the potential reporting improvements that advisers make following investigations, we examine whether advisers change their governance (e.g., whether they engage a Big 4 auditor or obtain an internal controls audit) in response to an SEC investigation. Finally, to explore the potential disclosure changes that advisers make following investigations, we use a large language model (FinBERT; Huang et al. 2023) and fund brochures (Form ADV Part 2) to assess changes in the quantity, tone, or content of advisers' disclosures to investors following an SEC investigation.

These questions are important for several reasons. First, private markets are an increasingly important sector of the economy with private equity (e.g., buyout, venture capital, real estate, infrastructure, and natural resources) global assets under management of \$11.7 trillion as of 2022

(Mckinsey 2023) while hedge fund assets under management topped \$4.3 trillion as of the first quarter of 2024 (Reuters 2024). Second, with the growing importance of private markets, the SEC has simultaneously increased its regulatory oversight of private fund advisers. In 2010, the SEC Department of Enforcement established five specialized units. The biggest unit, in terms of staff, is the Asset Management Unit, focusing on investigations involving investment advisers, investment companies, hedge funds, and private equity funds (Herrmann, Kubic, and Toynbee 2024).¹ Finally, while recent research suggests that private equity funds are monitored by their investors and auditors, several stakeholders known to monitor public companies, such as financial analysts, active investors, creditors, and boards of directors, typically do not play a significant role in private funds (Easton, Larocque, Mason, and Utke 2024). Therefore, regulatory oversight may have a different impact on private funds than on public companies. Overall, our study is of interest to academics, regulators, and investors seeking to better understand how regulatory enforcement affects the choices and activities of private fund advisers.

Our study focuses on the impact of formal investigations conducted by the SEC's Division of Enforcement related to investment advisers (IA) or investment companies (IC). Typically, SEC staff initiate investigations by directly notifying the target entity of the inquiry and requesting documentation and information. To preserve the integrity of the process and to protect evidence and the reputations of those under investigation, the SEC generally keeps investigations private unless and until the SEC files an action either in court or through an administrative proceeding (Blackburne et al. 2021). Although the initiation of an SEC investigation does not automatically indicate wrongdoing, it can result in serious consequences, including administrative actions, lawsuits, negative publicity, or reputation damages. In recent years, SEC enforcement against

¹ https://www.sec.gov/news/press/2010/2010-5.htm.

investment advisers has become one of the most common enforcement actions. For example, in 2022, enforcement actions against investment advisers constituted 23% (the highest percentage) of all enforcement actions.²

Private fund advisers, or general partners (GPs), are financial intermediaries that raise capital from external investors, or limited partners (LPs) to invest in underlying portfolio companies. Private fund GPs raise capital on a recurring basis with new funds being formed every three to five years (e.g., Metrick and Yasuda 2011; Crain 2018). The fundraising process typically takes between three months and three years. Because many funds have a limited life or about 10 to 14 years, advisers who desire to stay in business must continually fundraise (Arcot et al. 2015).

It is unclear how SEC investigations affect advisers' ability to raise funds. On one hand, SEC investigations could lead firms to increase transparency or improve corporate governance, which in turn should reduce agency conflicts and increase advisers' ability to raise capital. On the other hand, SEC investigations could harm advisers' ability to raise capital to the extent investigations are not kept entirely private, leading to reputational damage among prospective investors. Finally, SEC investigations could have no measurable effect on fundraising if investigations are unknown to investors, necessitating little change by the advisers.

Our sample includes 32,594 adviser-year observations for 5,409 unique advisers. We start our sample with all private fund advisers who report positive assets under management in Form ADV from 2011 to 2019.³ Importantly, Form ADV includes information not only about private fund advisers, but also about the individual private funds managed by each adviser. We then

² https://www.sec.gov/files/fy22-enforcement-statistics.pdf.

³ Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), the SEC requires all private fund advisers managing more than \$100 million in assets to annually file Form ADV Part 1, which discloses many characteristics of the adviser and the funds they manage. Advisers managing between \$25 million and \$100 million in assets must also file Form ADV, Part 1 if they are not required to register with their respective state. Advisers managing more than \$150 million in assets must also file Form ADV Part 2, which is a narrative-form disclosure. We combine data from Form ADV Part 1 and ADV Part 2 in this study.

combine Form ADV Part 1 and 2 data with all SEC investigations of investment advisers (IA) or investment companies (IC) obtained by FOIA requests. We hand match these data sources by adviser name and retain only IAs or ICs 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.⁴ 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). To ensure we account for systematic differences between our treatment and control samples, we use an entropy-balanced sample throughout and we control for other factors known to influence the fundraising activities of private funds (e.g., performance, misconduct).

We find strong evidence that private fund advisers form more new funds and raise more capital following an SEC investigation. 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. Our estimates suggest that advisers are able to raise an additional \$190.1 million additional capital following an investigation, which is economically significant and equates to 15% of the standard deviation in total fund value.

We next explore potential improvements private fund advisers make following SEC investigations. Specifically, we explore whether advisers alter their governance or disclosure choices in response to SEC investigations, which may provide insight into the cause of the fundraising results we document. To explore these channels, we first use Form ADV, Part 1

⁴ Blackburne et al. (2021) document that about 11 percent 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 funds in our sample, from about 0.4% in early 2010s to over 1% in recent years.

information to identify advisers' choice to use a Big 4 auditor and to obtain an audit over their internal controls. We view both choices as increasing the quality and strictness over financial reporting, 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. This evidence supports the notion that SEC investigations have a positive effect on the governance and reporting of private fund advisers, likely enabling fundraising efforts.

Second, we explore whether advisers' disclosures become more transparent following SEC investigations. We explore this possibility using Form ADV, Part 2, often referred to as an adviser's 'brochure.' Brochures are similar in concept to the Management Discussion and Analysis (MD&A) section in a 10-K, containing plain-language narratives of numerous items including the adviser's investment strategies, risks, code of ethics, and compensation arrangements. Using FinBERT we measure the quantity of information disclosed as well as the tone (i.e., positive and negative) of each sentence in the brochure. We also measure language related to business ethics and systematic and idiosyncratic risks. We find that advisers provide longer, but more negative-toned, disclosure to investors following an SEC investigation. We also find that advisers increase their discussions of business ethics, specifically their discussion of business ethics with a negative tone. Together, we find that SEC investigations are associated with an increase in transparency by advisers and increased strictness over financial reporting.

We conduct a number of additional analyses. First, we conduct several cross-sectional analyses. We find that the fundraising effects of SEC investigations are concentrated in larger funds and funds with more inside ownership, which are generally funds that may face more conflicts of interest. We also find that fundraising results are largely consistent across major fund types: buyout, hedge, venture capital, and real estate. We also provide support for our parallel trends assumption by separately examining years before and after investigations and find that results only appear after investigations. We then verify results are robust to using a stacked difference-in-differences design (Baker, Larcker, and Wang 2022). Finally, we examine whether our results are driven by funds that ultimately face enforcement actions from the SEC, rather than just an investigation, and find that enforced funds do not drive results.

Our paper contributes to multiple streams of literature. First, we contribute to the literature on monitoring in private funds. We find that the SEC plays a significant monitoring role such that funds experience enhanced fundraising along with improved disclosure and governance resulting from SEC investigations. This contrasts with limited or mixed evidence of monitoring by other external parties (e.g., Gaver et al. 2023; Easton et al. 2024). Our finding is important to regulators of private funds, especially as such agencies are increasingly capacity and resource constrained.

We also contribute to the literature on fundraising in private funds, adding to this literature by showing that SEC investigations, in addition to adviser misconduct (e.g., Jiang et al. 2024) and the disclosure of environmental information (e.g., Campbell et al. 2024), affect fundraising by private funds advisers. Further, our findings provide important insight suggesting private fund advisers seek to reduce agency costs by providing transparent disclosure following SEC investigations, adding to the literature on the disclosure and reporting choices of private fund advisers.

Finally, our paper contributes to the literature on SEC investigations and enforcements. The majority of existing research on SEC investigations and subsequent enforcements focuses on determinants and consequences of the SEC's activities in public firms (e.g., Chakravarthy, deHaan, and Rajgopal 2014; Farber 2005; Cheng and Farber 2008; Files, Martin, and Rasmussen 2019). To our knowledge, our study provides the first evidence on the impact of SEC investigations on private fund advisers. In addition, we provide additional evidence on firm responses to concerns of financial misconduct (e.g., Hennes, Leone, and Miller 2008; Karpoff, Lee, and Martin 2008a; Efendi, Files, Ouyang, and Swanson 2013). Interestingly, while some research argues 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 suggesting further disclosure requirements by private fund advisers may not be warranted. Because the SEC is the primary regulator in the US for overseeing the private fund market, our study provides initial evidence regarding whether the SEC serves as an effective monitor for 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 the 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 associated director in the Division of Enforcement (SEC 2017). 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). SEC formal investigations can last several years. Recent research shows that SEC investigations are rarely disclosed by the firms subject to the investigation (only 19 percent disclosed), yet they are material events that precede declines in operational performance (Blackburne et al. 2021; Bonsall, Donovan, Holzman, Wang, and Yang 2024).

In response to heightened pressure following the Global Financial Crisis and the Madoff Ponzi scheme, the SEC's Division of Enforcement underwent a major reorganization, with the creation of five specialized units: asset management, market abuse, structured products, Foreign Corrupt Practices Act (FCPA), and public finance (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 (e.g., buyout and venture capital funds), is the largest (Herrmann et al. 2024). With the growing importance of private markets and the increasing focus on regulatory oversights, SEC enforcement against investment advisers and companies has become one of the most common enforcement actions in recent years. 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 are primarily made-up of institutional investors (e.g., university endowments, pension plans, etc.) or other accredited investors (e.g., high net worth individuals). In the context of buyout and venture capital 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 or new investors from placing additional capital in the existing fund. Therefore, investors are generally 'locked-in' to their private fund investments. Upon fund closing, GPs begin to call investors' capital to be deployed in the purchase of portfolio companies. In the context of hedge funds, LPs commit capital to GPs in open-ended funds. As a result of hedge funds being open, investors have greater liquidity and opportunity for exit as compared to buyout and venture capital funds. However, hedge funds still have 'lock-up' periods, where investor funds are unavailable for withdraw, as well as restrictions on the amount of capital that is to be distributed.

The organization structure of private funds (i.e. buyout, venture, and hedge funds) create two layers of agency costs. First, there are agency conflicts that 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, there are agency conflicts 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 impacts a GPs ability to raise capital from external LPs, which is vitally important to the private fund model, especially for buyout and venture capital funds.

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. At fund inception, private funds and LPs sign limited partnership agreements (LPAs), which dictate the compensation terms of the fund. Typically, private funds use a "2 and 20" compensation structure where GPs receive 2 percent of the capital committed to the fund and 20 percent of any profit obtained above a set benchmark. As a result of this compensation structure, GPs have an incentive to increase fundraising and assets under management, thereby increasing 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. (2023) find that the disclosure of negative information about the adviser, specifically misconduct reported by the adviser, inhibits the adviser's ability to fundraise. We extend existing work to explore another potential event that may influence advisers' fundraising activities: investigations by the SEC. Importantly, we account for both performance and misconduct in our empirical analyses.

With private funds being inherently private and no mandate to disclose investigations (in contrast to enforcement actions; Jiang et al. 2024), SEC investigations may not directly affect advisers' fundraising if investors are unaware of any investigation. Further, investors may focus primarily on other fund attributes (e.g., performance) rather than issues that may concern the SEC. However, the SEC's monitoring of private funds may encourage advisers to enhance governance, improve disclosure, or undertake other general improvements which may lead to better fundraising ability. These enhancements reduce agency conflicts between GPs and LPs leading to an increased ability to fundraise. Therefore, it is an empirical question as to whether SEC investigations affect fundraising. Given the uncertain predictions, we state our first hypothesis in the null form:

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

Existing research in public markets finds that financial reporting misconduct has significantly negative firm outcomes due to reputation costs ranging from a loss in value from 20 to 25 percent (Beneish 1999; Karpoff et al. 2008a) with the largest losses being in firms subject to SEC and Department of Justice enforcement (see Karpoff et al. 2008a). Additional research

suggests firms with financial misreporting experience higher costs of capital and reduced cash flow from operations (e.g. Murphy et al. 2009; Kravet and Shevlin 2010). Public firms take strategic steps to mitigate these negative outcomes 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, private activities. As a result, it is unclear what effect SEC investigations have on firm activities.

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 or to deter future investigations. For example, advisers may increase their strictness of reporting choices (e.g., using a Big 4 auditor) or obtain internal controls audits as a signal of improved internal reporting and operations. On the other hand, sophisticated investors may find strict financial reporting to be of limited value, especially since sophisticated investors in private funds have inside access to fund advisers (i.e., Regulation Fair Disclosure [Reg FD] does not apply). Further, because SEC investigations often remain undisclosed (Blackburn et al. 2021), investors may respond very little to any changes in reporting since it is unclear that strict financial reporting or internal controls is related to fundraising activities (Gaver et al. 2023). As such we state our second hypothesis in the null form:

H2: Private fund advisers' governance does not change following SEC investigations

Another potential avenue by which private fund advisers may respond to SEC investigations is through disclosure. Because private fund advisers face agency conflicts between GPs and LPs, GPs may enhance disclosures to signal greater integrity (Libby and Tan 1999; Mercer 2004) and meet investors' demand for information (e.g., Gaver et al. 2024) following SEC

investigations. Collectively, the improved disclosure and credibility reduces information asymmetry between GPs and LPs (Leuz and Verrecchia 2000), which LPs may view with more concern upon the initiation of an SEC investigation. However, as before, sophisticated investors may already have inside information from GPs and place little value of any additional disclosure. Further, the disclosure we study, Form ADV, Part 2, may simply be boilerplate. In addition, private fund advisers could leave disclosure unchanged in order to avoid disclosing information that makes investors aware of the SEC investigation. Finally, advisers may reduce the amount of information disclosed. 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 (e.g., ethics, risk) of their disclosure to convey value-relevant information to investors. Existing literature in public firms finds that investors value both the content and tone of disclosures (e.g., Feldman et al. 2010; Loughran and McDonald 2011; Campbell et al. 2014). As such, private fund advisers may use positive tone 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 in public firms has been used by managers to mitigate future risks and temper investors' negative expectations (e.g., Rogers et al. 2011). On the other hand, as before and different than in public markets, advisers may find little benefit to altering tone in the disclosures we study if sophisticated investors do not value such information due to their direct access to advisers or if the disclosure is primarily boilerplate. As a result, we present the following disclosure hypothesis regarding disclosure length, tone, and content in the null form:

H3: Private fund advisers' disclosures do not change following SEC investigations

III. Data, Research Design, and Descriptive Statistics

3.1 Data

To answer our research questions, we gather data from two sources. First, we obtain information on SEC investigations that pertain to investment advisers (IA) or investment companies (IC). The SEC investigation dataset includes formal SEC investigations that were closed between 2000 and 2022, with the names of all investigated entities (e.g., public companies, broker-dealers, investment advisers), the primary reason for the investigations (e.g., insider trading, financial fraud/issuer disclosure, investment advisers or investment companies), and the open and close dates of the SEC investigations.⁵ Second, 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.⁶ 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 an extensive discussion of Form ADV, Part 1).⁷ We then implement a matching process to combine the date on SEC investigations with the Form ADV filings. To complete our matching process, we first implement an exact name matching

⁵ The dataset was compiled through information obtained via different FOIA requests. We thank Terrence Blackburne for sharing SEC investigation data from 2000 to 2017. We obtain data from 2018 to 2022 through FOIA requests.

⁶ 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 <u>https://www.sec.gov/news/press/2011/2011-133.htm</u> for additional details on the SEC's registration requirements for investment advisers, with a focus on amendments instituted by Dodd-Frank. ⁷ As an example of our data, consider the investment adviser, Blackrock Investment Management, LLC (Blackrock). 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 Copportunities Fund, L.P., Blackrock Private Opportunities Fund II, L.P., Blackrock Private

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.

algorithm between the IA or IC listed as being 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 advisers.

Our sample period starts in 2011 and ends in 2019. We start our sample period in 2011 because this is the first year for which Form ADV date is available. We end our sample period in 2019 because our investigation dataset only includes cases closed before December 30, 2022, and most investigations started in and after 2020 are not included. Investment advisers can be subject to multiple investigations concurrently. Following Blackburne and Quinn (2023), we consolidate concurrent investigations into a single continuous investigation period.⁸

Our starting sample contains all advisers filing Form ADV with positive and non-missing 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 the private funds they manage.⁹ Following these restrictions, we are left with 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 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 investigations, we require advisers to have filed Form ADV, Part 2. Part 2, referred to as an adviser's brochure, is a newly required disclosure that 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 are defined as those advisers who

⁸ We define concurrent investigations as the cases that remain open within a 365-day window.

⁹ Advisers denote whether they are an adviser of a private fund in Item 7(B) of Form ADV with detailed information about each private fund disclosed in Schedule D, Section 7.B.(1).

manage less than \$150 million in assets or are solely an adviser to venture capital funds, and following Dodd-Frank, are not required to obtain an annual audit over their financial reporting (Gaver et al. 2023). Using only advisers that are non-exempt, and required to file Part 2 of Form ADV, mitigates concerns that any results we find 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. The brochures contain 19 specific items that the SEC requires to be disclosed including risks, investment strategies, ethics, types of clients, and compensation arrangements. Following existing research, Form ADV, Part 2 proxies for information provided to LP investors (Campbell et al. 2024). Requring Part 2 further reduces our sample by 1,218 adviser-years or 327 unique advisers. Finally, we remove advisers that are investigated multiple times within the sample period, observations with partial years under investigation, and 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 in arriving at the 32,594 adviser-year observations used throughout our study.

3.2 Research Design

To examine the impact SEC investigations, have on private fund advisers' fundraising, we implement a generalized difference-in-difference regression analysis using multiple measures of fundraising. First, we use *New_Fund* as our dependent variable, which is an indicator variable taking the value of one if GP *i* forms at least one new fund in year *t* and zero otherwise. We next use the number of new funds formed as our dependent variable, *New_Fund_Ct*, which is the natural logarithm of the total number of new funds formed by GP *i* in year *t*. Finally, we explore the magnitude of new funds raised by the adviser using *New_Fund_Value* as our dependent variable, which is calculated as the natural logarithm of all funds raised in year *t*. Using each of these

variables to identify fundraising activities by advisers, we estimate our difference-in-difference model separately for each dependent variable.

To identify our treated firms, we create the variable *Post_SEC*, which is an indicator taking the value of one for adviser-years after the SEC initiates an investigation of GP *i* in year *t* and for all adviser-years that follow and zero otherwise. Because SEC investigations related to IA/IC take 3 years on average, we next explore fundraising during the SEC's investigation period as well as after. To do so we estimate our difference-in-difference model by including both *Investigate* and *Post_Investigate*, which are indicator variables taking the value of one if the adviser-year falls after the open date but before the close date of the SEC's investigation for *Investigate*, or after the close date of the SEC's investigation for *Post_Investigate*. Our treated sample (*Post_SEC* = 1) includes 657 adviser-year observations (191 unique advisers), while our control sample (*Post_SEC* = 0) includes 31,937 adviser-year observations (5,384 unique advisers).

3.3 Testing H1

Our first hypothesis predicts that adviser fundraising is unaffected by SEC investigations. Using the above dependent variables and treatment variables, we implement a generalized difference-in-difference empirical model to test this prediction:

$$Fundraising_{i,t} = \alpha_0 + \alpha_1 Post_{SEC_{i,t}} + \left[\alpha_1 Investigate_{i,t} + \alpha_2 Post_{Investigate_{i,t}}\right]$$

$$+ \sum \alpha Controls + Adviser FE + Year FE + \varepsilon_{i,t}$$
(1)

Where *i* denotes adviser and *t* denotes year. The dependent variable, *Fundraising*, refers to one of three dependent variables discussed above, *New_Fund, New_Fund_Ct*, or *New_Fund_Value*. When estimating each model of fundraising, we first estimate a model including only *Post_SEC*, followed by a model including both *Investigate* and *Post_Investigate*. We include adviser and year fixed effects, and cluster standard errors by adviser. *Controls* is a vector of control variables in

time *t-1* that likely affect fundraising. Following existing research (e.g., Campell et al. 2024; Jiang et al. 2024), we include adviser size (LnAUM), age (Age), and ownership characteristics such as the number of owners (*LnOwners*), insider ownership (*OwnedRelated*), sophisticated investor ownership (OwnedFoF), and foreign ownership (OwnedNonUS). We also include an indicator variable, *Misconduct*, identifying advisers with past regulatory, civil, or criminal misconduct, which has been shown to affect advisers' fundraising efforts (Jiang et al. 2024). To account for differences in fundraising due to the type of fund, we include HF only and BO only, which are indicator variables taking the value of one if GP *i* manages only hedge funds or buyout funds in year t, respectively. Because performance is a main determinant of an adviser's ability to raise new 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 ensure we maximize our sample size (Jiang et al. 2024). 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 investigation or simply not having the capacity to adequately fundraise due to the distraction of the investigation. Appendix A reports additional details for each variable's description, computation, and source.

3.4 Testing H2

Our second hypothesis predicts that advisers' financial reporting choices are unaffected by SEC investigations. As before, we implement a generalized difference-in-difference model using the following estimation model:

Reporting Choice_{*i*,*t*} =
$$\alpha_0 + \alpha_1 Post_{SEC_{i,t}} + [\alpha_1 Investigate_{i,t} + \alpha_2 Post_{Investigate_{i,t}}] + \sum \alpha Controls + Adviser FE + Year FE + \varepsilon_{i,t}$$

$$(2)$$

Where the dependent variable, *Reporting Choice*, refers to either advisers' choice to use a Big 4 auditor (*Big4*) or the choice to obtain an audit over the adviser's internal controls (*IC*). Like our test of H1, our variables of interest include *Post_SEC* in the first estimation followed by examining financial reporting choices during and after the investigation using *Investigate* and *Post_Investigate* in the model. We include adviser and year fixed effects, and cluster standard errors by adviser. We also continue to account for other adviser characteristics that prior studies suggest are related to advisers' financial reporting choices (e.g., Gaver et al. 2023).

3.5 Testing H3:

Our third hypothesis relates to how SEC investigations impact 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 number of sentences and the total file size, as measured by the total number of characters, of each Part 2 to calculate *SentCount* and *FileSize*, which are the natural logarithms of each, respectively. We then use FinBERT's sentiment model to classify each sentence as either negative, positive, or neutral. We create the variables *Negative* and *Positive*, which are the percentage of the total sentences that are either negative or positive, respectively.¹⁰ As previously discussed, we are also interested in the

¹⁰ We do not tabulate results for neutrally-toned sentences.

content of information disclosed in Part 2. Specifically, do we observe advisers altering their discussion of business ethics-related items or particular risks as a response to SEC investigations. Therefore, we use FinBERT to also measure the percentage of sentences disclosed by advisers in Part 2 relating to business ethics (*BE*) as well as the sentiment of each sentence, either negative (*BE_Negative*) or positive (*BE_Positive*). To capture risk-related disclosures, we use a bag of words approach using the word lists in Campbell et al. (2014) to quantify the percentage of words disclosed in Part 2 that relate to systematic (%*Systematic*) and idiosyncratic (%*Idiosyncractic*) risk. Using these measures, we examine our third hypothesis by again implementing a difference-in-difference empirical design surrounding SEC investigations, comparing treated advisers to control advisers, using the following estimation:

$$Disclosure_{i,t} = \alpha_0 + \alpha_1 Post_{SEC_{i,t}} + \left[\alpha_1 Investigate_{i,t} + \alpha_2 Post_{Investigate_{i,t}}\right] + \sum \alpha Controls + Adviser FE + YearFE + \varepsilon_{i,t}$$
(3)

Where *Disclosure* is one of multiple different disclosure measures computed from Form ADV, Part 2 filings: (1) the natural logarithm of the number of sentences in the filing (*SentCount*), (2) the natural logarithm of the number of characters in the filing (*FileSize*), (3) the percentage of negative (*Negative*) or positive (*Positive*) sentences to total sentences in the document, (4) the percentage of sentences discussing business ethics (*BE*) and the percentage of toned business ethics sentences (*BE_Negative*; *BE_Positive*), and (5) the percentage of systematic and idiosyncratic risk-related words (*%Systematic*, *%Idiosyncratic*). As with our other models, we use our entropy-balance sample and include adviser and year fixed effects along with the aforementioned adviser characteristics as control variables. Standard errors are clustered 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 have a new fund that is formed with, on average, just over 2 funds being formed with \$79 million in assets under management. 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 compare differences in fundraising before, during, and after an SEC investigation for our sample of treated firms. We present these univariate statistics in Table 2, Panel B. We find a significant increase in advisers' fundraising both during and following an SEC investigation. This includes the incidence of raising a new fund (New Fund) and the number of funds raised (New Fund Ct). We also find a significant increase in the amount of capital raised (New Fund Value). This univariate comparison provides preliminary evidence that SEC oversight in the form of an investigation, provides a benefit to advisers in the form of an increased ability to raise new funds and the amount of new funds raised. This suggests the SEC likely alleviates some agency costs between GPs and LPs allowing for an increased ability of capital raising by the GP. However, we refrain from drawing stronger conclusions from this analysis as the results are simply univariate and do not account for other variables (e.g., performance) known to influence fundraising by private fund advisers.

We next compare treated firms to our sample of control firms to identify significant differences in our controls. We present these univariate comparisons in Table 2, Panel C. We observe significant differences across nearly all control variables between investigation advisers and those not subject to an SEC investigation. Most notably, we observe investigation advisers are larger, older, have more investors, and have significantly better performance. However, investigation 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, we implement an entropy balancing methodology, balancing treated and control advisers across our control variables to the third moment (mean, variance, skewness). We present the univariate comparisons between SEC investigation advisers and control advisers after our entropy balancing in Table 2, Panel D. As expected, our entropy balancing methodology reduced differences across our control variables between investigation and non-investigation control firms. Therefore, throughout our remaining analyses, we use our entropy-balanced sample to ensure our results are robust to considering the differences between our treated and control samples.

IV. Results

4.1 Analysis of Fund Formation

Table 3, Panels A through C present results from estimating equation 1 assessing the impact of SEC investigations on fundraising. Panel A presents results on the likelihood of raising a new fund (*New_Fund*), while Panel B presents results on the number of new funds raising (*New_Fund_Ct*). Panel C presents results when using the value of assets raised in new funds (*New_Fund_Value*) as the dependent variable. In each panel, columns 1 and 2 presents results using our unweighted sample, while columns 3 and 4 present results using our entropy-balanced sample. Specifically, we find a 5.3% increase in the likelihood of raising a new fund (coefficient on *Post_SEC* in Panel A, column 1) following the conclusion of the SEC's investigation. This is equivalent to a 22.6% increase over the sample average fundraising of 23.4% (0.053 divided by 0.234). Importantly, this result is even stronger when using our entropy-balance sample in the estimation (column 3 of each panel) showing an 8.1% higher likelihood of raising a new fund for advisers following an SEC investigation. Similarly, in Panel B, we observe a 150% higher count of new funds started (exp[.918] - 1). This is equivalent to raising 3 additional funds at the mean (150% * exp[.708]). As in our test of *New_Fund*, our results for *New_Fund_Ct* are stronger when using our entropy balanced sample.

When analyzing the amount of new capital raised in Panel C, we find a positive and significant coefficient on Post SEC of 1.224 (1.737) using our unweighted (entropy-balanced) sample. This equates to a 240% (exp[1.224] - 1) increase in new funds raised following an SEC's investigation in our unweighted sample. This is equivalent to \$190.1 million additional capital being raised by advisers that were 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 funds raised equivalent to 15% of the standard deviation of New Fund Value (coefficient of 1.224 divided by the standard deviation of New Fund Value of 7.964). For context, the coefficient on LnAUM is 1.883 in Panel C, column 1 suggesting a one standard deviation in LnAUM (1.832) is equivalent to a 3.44 increase (1.883 * 1.832) in the amount of new funds raised, which is equivalent to 43.31% of the standard deviation in New Fund Value. 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 due to the size of the adviser. Altogether, we find consistent evidence throughout that advisers subject to an SEC investigation were more likely to raise a new fund, increased the number of new funds raised, and were able to raise a higher amount of capital.

We next consider whether fundraising by advisers is affected by the timing of an SEC's investigation of the adviser. Specifically, does the increased fundraising activity we document occur during the investigation, after the investigation closes, or both. Columns 3 and 4 of Panels A, B, and C presents results using *Investigate* and *Post_Investigate* in the estimation, which are indicator variables capturing the time periods during and after an SEC's investigation, respectively.

Table 3, Panel A, columns 2 and 4 show and increase in the likelihood an adviser subject to an SEC investigation forms a new fund during and after the investigation. However, this finding is only statistically significance when using our entropy-balanced sample (column 4), and falls just short of economic significance in our unweighted sample (column 3). The economic magnitude of our results suggest a 7.0% higher likelihood of forming a new during the investigation, which increases to 10.5% once the investigation concludes. We find similar results when analyzing the number of new funds raised and the dollar amount of capital raised suggesting an immediate impact of SEC investigations on advisers' fundraising activities as well as more long-standing effects once the investigation concludes.

4.2 Analysis of Governance

Collectively, our evidence suggests strong evidence that SEC investigations have some spillover effects on advisers' fundraising activities, yet it remains unclear why we find an increase in advisers' ability to fundraise. We next test H2, analyzing whether the increase in fundraising activities during and after an SEC investigation is a result of improved governance-related choices (e.g., Big 4 auditor and internal controls audit choices) by the adviser, of which investors favorably respond to by placing capital with the adviser in fundraising. We explore this hypothesis by estimating equation 2 focusing only on our entropy-balanced sample. Results from this analysis are presented in Table 4 with columns 1 and 2 (3 and 4) analyzing the choice to use a Big 4 auditor (obtain an audit over internal controls). Table 4, columns 1 and 3 (2 and 3), use *Post_SEC* (*Investigate* and *Post_Investigate*). We find that advisers are more likely to use a Big 4 auditor following an SEC investigation. More specifically, we observe a 3.1% higher likelihood of choosing to use a Big 4 auditor after an SEC investigation (column 1). This finding suggests

advisers respond to an SEC investigation by improving financial reporting quality through stricter auditor oversight (e.g., use of Big 4), which could explain the increase in fundraising activities.

When analyzing the choice to obtain an audit over the advisers' internal controls, we observe a higher likelihood, specifically a 7.2% increase, of choosing an internal controls audit following an SEC investigation (column 3). When analyzing the period of time during and after SEC investigation separately, we observe a 5.2 (6.6) percent higher likelihood of choosing a Big 4 auditor (obtaining an internal controls audit) during the SEC investigation. This evidence suggests SEC investigations have immediate implications for the financial reporting choices of advisers under investigation. We do continue to find a higher likelihood of internal controls audits following the conclusion of the SEC's investigation (column 4, *Post_Investigate* coefficient) but we don't observe a similar result for the Big 4 auditor choice (column 2, *Post_Investigate* coefficient). This evidence rejects the null hypothesis in H2 suggesting private fund advisers alter financial reporting and internal governance choices in response to private SEC investigations. Our evidence is consistent with existing literature in public markets showing firms respond to financial misconduct by changing auditors and internal controls (e.g., Chakravarthy et al. 2014; Chava et al. 2017)

4.3 Analysis of Disclosure

To further understand how private fund advisers respond to SEC investigations, we next test H3 to determine whether private fund advisers' disclosures change in response to being investigated by the SEC. As previously discussed, we explore the quantity, tone, and content of narrative disclosures by advisers in Form ADV, Part 2 filed with the SEC. We test H3 by estimating equation 3 using our entropy-balanced sample beginning with disclosure complexity using *SentCount* and *FileSize* as the dependent variable. Table 5, Panel A presents results for this estimation with columns 1 and 2 (3 and 4) presenting results for *SentCount* (*FileSize*). We find

evidence suggesting the quantity of sentences and overall file size significantly increases following SEC investigations. Specifically, we observe a 7.1 percent (exp[0.069]-1 where 0.069 is the coefficient *Post_SEC* in column 1) increase in the number of sentences. We observe similar evidence when examining *FileSize* in column 3 suggesting the overall length, in terms of textual characters, significantly increases. In columns 2 and 4 we examine separate time periods of the SEC investigation using *Investigate* and *Post_Investigate* in the estimation. We find advisers increase the quantity of disclosures during SEC investigations. Together, this evidence suggests private fund advisers use disclosure to mitigate any potential negative outcomes from SEC investigations, which in turn aids in reducing agency costs and increasing fundraising.

We next consider the tone of advisers' disclosures in Form ADV, Part 2 using *Negative* and *Positive* as dependent variables. Table 5, Panel B presents results from this estimation. Columns 1 and 2 (3 and 4) present evidence for *Negative (Positive)* where columns 1 and 3 (2 and 4) use our variable of interest *Post_SEC (Investigate* and *Post_Investigate)*. We observe a positive and significant coefficient on *Post_SEC* for negative tone sentences suggesting advisers alter their tone following SEC investigations.¹¹ When analyzing the period during and after the investigation, we find evidence that advisers increase their negative toned disclosure in Form ADV, Part 2 during the SEC investigation. Overall, our evidence suggests advisers alter reporting behavior, specifically the tone in mandatory disclosures, during SEC investigations.

To further test our third hypothesis related to advisers' disclosures, we assess whether the content of Form ADV, Part 2 disclosures is related to SEC enforcement. We analyze the discussion of business ethics topics, untoned and toned, as well as advisers' discussions of systematic and

¹¹ In untabulated tests, we construct a net measure of tone taking the difference between *Negative* and *Positive*, and using this measure as our dependent variable. We continue to find strong evidence that advisers increase the negative tone, in relation to positive language, following SEC investigations.

idiosyncratic risks to determine whether advisers are responding to SEC investigations by simply talking about their ethical behavior, likely their negative behavior, or potential risks the adviser is experiencing. Table 5, Panel C presents evidence on advisers' discussions of business ethics topics while Table 5, Panel D presents results analyzing systematic and idiosyncratic risk discussed in Form ADV, Part 2.

We find evidence that advisers increase their discussion in Form ADV, Part 2 of business ethics topics following the SEC investigation (Panel C, column 1). Interestingly, the increased discussion of business ethics has a negative tone, suggesting advisers may be either directly or indirectly alluding to the investigation or explaining the reasons for the investigation to limit surprises from the markets or preempt external release of bad news (Blackburne and Quinn 2023)We do not find evidence that advisers increase any positively toned business ethics discussions (Panel C, column 3). When separating disclosures during the SEC investigation and after, we find advisers increase their discussion of negatively toned business ethics topics both during and after the investigation. When we analyze the percentage of systematic (Panel D, columns 1 and 2) and idiosyncratic (Panel D, columns 3 and 4) words discussed in adviser filings, we observe a significant reduction in the discussion of systematic risk, both during and after the investigation. Taken together, our findings show advisers increase the business ethics language in their disclosures during and following the SEC's investigation, with a bent towards negative business ethics, yet reduce their discussion of systematic risk items. This may be due to advisers' desire to be forthcoming with respect to ethical related issues in connection with the SEC investigation yet reduce any discussion of risk so as to not heighten investors' uncertainty, limiting any negative impact on fundraising.

V. Additional Analyses

5.1 Analysis by Size

To further understand the relation between fundraising activities and SEC investigations, we explore multiple cross-sections beginning with potential differences due to size. Because we observe a significant and positive relation between size (LnAUM) and fundraising, we explore whether this relation varies across advisers by size. To examine this relation in the cross-section, we separate advisers into large and small advisers in each year, based on the median LnAUM, and estimate equation 1 for each group separately. Importantly, we only examine the post-SEC investigation periods as compared to the pre-SEC investigation period using *Post SEC* in the model and do not tabulate the results using *Investigate* and *Post Investigate*.¹² Table 6, Panel A presents results from this analysis with columns 1 through 3 (4 through 6) displaying results using our three measures of fundraising outcomes for large (small) advisers. We find evidence suggesting the increase in new fund formation and the amount of capital raised following an SEC investigation is concentrated in large private fund advisers. This may due to the resources available and increased ability large advisers have to improve internal governance through an internal controls audit, obtain higher quality audits, or improve disclosures. We continue to find a strong relation between adviser size and fund formation in large funds but not in small advisers suggesting large advisers are continually able to attract new capital, especially after SEC investigations.

5.2 Analysis by Inside Ownership

We next explore whether variation in the amount of capital private fund advisers invest in their own funds impacts the relation between SEC investigations and fundraising. Because private fund advisers are subject to agency costs due to asymmetric information between the adviser and investors, our baseline findings suggest SEC investigations discipline advisers thereby reducing

¹² When estimated our model including the time period during investigation (*Investigate*) and the time period after (*Post_Investigate*), we continue to find evidence that the increase in fundraising activities are driven by large advisers, especially after the SEC investigation concludes.

the agency costs and improving the fundraising efforts of the adviser. To add clarity to this narrative, we assess whether our results are concentrated in advisers that experience a heightened level of agency costs due to the ownership structure of the funds they manage. To do so, we separate advisers into two groups based on whether the private funds they manager are above or below the median in terms of how much the adviser has invested in the funds themselves (*OwnedRelated*). Advisers with high inside ownership, and therefore less outsider investment, are likely to experience higher agency costs due to the reduced monitoring from fewer outsiders, which in turn may lead to a greater impact from an SEC investigation. Alternatively, advisers with lower inside ownership, and likely lower agency costs, could experience less impact from an SEC investigation.

To examine these predictions, we separately estimate equation 1 for the sample of advisers deemed to have high or low inside ownership based on a median split of *OwnedRelated* in each year. Table 6, Panel B presents results from this estimation with columns 1 through 3 (4 through 6) presenting results for advisers with high (low) inside ownership. As in our cross-sectional analysis based on size, we focus on the fundraising activities of private fund advisers and only use *Post_SEC* in our estimation.¹³ We observe that our main finding of increased fund formation and new capital raised following SEC investigations is concentrated in advisers with higher inside ownership. This suggest 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). This result holds for both our new fund formation variable (*New_Fund*) and our variable for the amount of capital raised (*New_Fund_Value*) but it statistically insignificant, yet directionally consistent, for the number of new funds raised (*New_Fund_Ct*).

5.3 Analysis by Fund Type

¹³ Results are consistent to those tabulated here when analyzing fundraising outcomes during the SEC investigation (*Investigate*) and the period after (*Post_Investigate*).

As an additional cross-sectional, we explore the relation of fundraising and SEC investigations across advisers managing different types of funds (e.g., buyout, hedge, venture capital, and real estate). Using advisers' disclosures of the types of funds they manage in Form ADV, Part 1, we separate advisers based on whether they advise at least one fund that is a buyout, hedge, venture capital, or real estate fund. Using these subsamples, we estimate equation 1 separately for each subsample and present the results in Table 7, Panels A and B where Panel A (B) presents results for buyout and hedge (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 *Post_SEC*), yet the results vary in statistical significance. For example, the strongest evidence of our baseline results can be found in advisers of hedge funds. We also find strong evidence for new fund formation (*New_Fund*) and new assets raised (*New_Fund_Value*) in real estate fund advisers. However, we primarily see an increase in the number of new funds formed following SEC investigations for advisers of buyout and venture capital funds.

5.4 Other Robustness Analyses

Throughout our analysis, we employ a difference-in-difference analysis examining fundraising and disclosure-related outcomes before and after SEC investigations. A key assumption when implementing this empirical design is the parallel trends assumption ensuring no systematic differences between the treated (advisers subject to an investigation) and control (advisers not subject to investigations) advisers exist in the pre-treatment (pre-SEC investigation) period. To test this assumption, we estimate our baseline model examining fund formation using multiple time period indicators for 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, two, and three

or more years after the open date of an SEC investigation (*Investigate_1*, *Investigate_2*, *Investigate_3*). The benchmark time period in this estimation is all GP-years 4 years or more prior to the investigation. As in our main models, we estimate this model using both adviser and year fixed effects. The results from this analysis are presented in Table 8. We observe the parallel trends assumption is satisfied as evidenced by the insignificant coefficients on *Pre-Investigate_1*, *Pre-Investigate_2*, and *Pre-Investigate_3* suggesting there are no differences between investigation and non-investigation advisers prior to an SEC investigation. We continue to observe significant increases in new fund formation, the number of new funds formed, and the amount of capital raised following SEC investigations with a specific increase in new funds being formed three years and beyond the end of the investigation. However, we observe a more immediate increase in the number of funds formed and the amount of capital raised in the first year after the SEC investigation. This evidence provides additional details on the timing of fundraising following SEC investigations and further supports our baseline empirical design choice of a difference-in-difference methodology.

Because SEC investigations vary across time, it is possible that there are waves of investigations or initiatives at the SEC that could systematically be related to the timing of fundraising activities. While we use year fixed effects in our baseline difference-in-difference analysis, as an additional test, we implement a stacked, cohort design difference-in-difference analysis. To do so, we assign treated and control firms to a cohort based where control firms are those that are never under SEC investigation. We assign investigations started in the same year as a cohort. Table 9 presents results from this analysis. We continue to find strong statistical support showing SEC investigations increase fundraising activities. Again, this evidence bolsters our main results showing SEC investigations have a spillover benefit to private fund advisers in the form of

increased fund formation and the amount of funds that are able to be raised even after considering adviser and market factors.

One concern with our finding that SEC investigations increase private fund advisers' fundraising activities, and this is likely due to increased governance and disclosure, is that these results could simply be due to the SEC's ultimate enforcement action against advisers, which investors favorably respond to due to the increased external oversight. To assess whether our findings are due to SEC investigations or the actual enforcement of misconduct by an adviser, we estimate equation 1 using an interaction of our *Post_SEC* indicator with indicators, *Enforce* and *Non-Enforce*, capturing whether the SEC's investigation ultimately leads to enforcement. We present the results from this estimation in Table 10. We find evidence that the increase in new fund formation, count of new funds, and the amount of new funds raised is concentrated in advisers that are investigated by the SEC, yet did not lead to enforcement actions being taken. This suggests advisers alter behavior, such as auditor and internal controls choices as well as disclosure quantity, tone, and content, in response to investigations but not enforcement.

VI. Conclusion

In this study, we examine the consequences of an SEC investigation of private fund investment advisers. More specifically, we address the question of whether the SEC serves a monitoring role in the private markets by exploring whether private fund investment advisers' fundraising activities are affected by an SEC investigation. We find evidence suggesting SEC investigations enable advisers' fundraising activities as evidenced by an increase in the number of funds formed and the amount of capital raised. We next explore potential reasons for this result exploring the quantity, tone, and content of disclosure and financial reporting choices of advisers following investigations. We document robust evidence that advisers make more strict reporting choices and increase disclosure transparency following investigations. Together, our evidence suggests the SEC does in fact play a monitoring role in the private market, which investors appear to acknowledge with their investment decisions.

Variable	Definition	Source
Post_SEC	An indicator variable equal to 1 for all GP-years following the initiation of an investigation by the SEC and 0 otherwise.	FOIA
Investigate	An indicator variable equal to 1 for all GP-years <i>during</i> an investigation by the SEC and 0 otherwise.	FOIA
Post_Investigate	An indicator variable equal to 1 for all GP-years <i>after</i> an investigation by the SEC is completed and 0 otherwise.	FOIA
New Fund	An indicator variable equal to 1 if the GP formed at least 1 new fund in year t.	ADV Part 1
New_Fund_Ct	The number of new funds raised in year <i>t</i> .	ADV Part 1
New_Fund_Value	The natural logarithm of the assets under management for all new funds raised in year t.	ADV Part 1
LnAUM	The natural logarithm of the total assets under management for adviser <i>i</i> in year <i>t</i> .	ADV Part 1
Age	The natural logarithm of the number of years since the adviser first was required to File Form ADV.	ADV Part 1
LnOwners	The weighted average by adviser <i>i</i> in year <i>t</i> natural logarithm of the raw number of investors in the PE fund. The weight used in this calculation is the natural logarithm of each fund's market value.	ADV Part 1
Misconduct	Indicator variable taking the value of 1 if GP i discloses any type of misconduct prior to year t, which is identified by whether GP i answers 'yes' to any question in Item 11 of Form ADV, Part 1A, and 0 otherwise.	ADV Part 1
IRR	The average final fund performance for all funds managed by GP <i>i</i> during year <i>t</i> . 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 <i>t</i> .	Preqin
HF only	An indicator variable equal to 1 if the GP only advises hedge funds in year t.	ADV Part 1
BO only	An indicator variable equal to 1 if the GP only advises buyout funds in year t.	ADV Part 1
OwnedRelated	The weighted average by adviser i in year t of the percentage of the PE fund owned by the investment adviser or a related party. The weight used in this calculation is the natural logarithm of each fund's market value.	ADV Part 1
OwnedFoF	The weighted average by adviser i in year t of the percentage of the PE fund 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 market value.	ADV Part 1
OwnedNonUS	The weighted average by adviser i in year t of the percentage of the PE fund owned by non-U.S. investors. The weight used in this calculation is the natural logarithm of each fund's market value.	ADV Part 1
Distance	The natural logarithm of one plus the number of miles between adviser <i>i</i> 's principal office and the SEC regional office, which has jurisdiction of the adviser.	ADV Part 2
Big4	The weighted average by adviser i in year t of an indicator variable that equals one if the PE fund 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
IC	An indicator variable equal to 1 if the GP obtains an internal controls report in year <i>t</i> and zero otherwise.	ADV Part 1
SentCount	The natural logarithm of the number of sentences reported in Form ADV, Part 2.	ADV Part 2
FileSize	The natural logarithm of the total number of characters in GP i's filing of Form ADV, Part 2.	ADV Part 3
Positive	The number of sentences classified by the Sentiment FinBERT model as positive in form ADV part 2.	ADV Part 2

Appendix A Variable Definitions

Negative	The number of sentences classified by the Sentiment FinBERT model as negative in form ADV part 2.	ADV Part 2
BE	The number of sentences classified by the Sentiment FinBERT model as discussing the topic of 'business ethics' in form ADV part 2.	ADV Part 2
BE_Positive	The number of sentences classified by the Sentiment FinBERT model as discussing the topic of 'business ethics' and having a positive tone in form ADV part 2.	ADV Part 2
BE_Negative	The number of sentences classified by the Sentiment FinBERT model as discussing the topic of 'business ethics' and having a negative tone in form ADV part 2.	ADV Part 2
%Systematic	The percentage of words used in Form ADV part 2 that are related to the bag of words defining 'systematic risk' according to Campbell et al. (2014) as compared to the total words in Form ADV part 2 for year <i>t</i> .	ADV Part 2
%Idiosyncratic	The percentage of words used in Form ADV part 2 that are related to the bag of words defining 'idiosyncratic risk' according to Campbell et al. (2014) as compared to the total words in Form ADV part 2 for year <i>t</i> .	ADV Part 2

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Table 1Sample 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 2Descriptive Statistics and Univariate Analyses

Panel A: Descriptive Statistics

Variable	Obs	Mean	StdDev	p10	p25	p50	p75	p90
Post_SEC	32,594	0.020	0.141	0.000	0.000	0.000	0.000	0.000
Investigate	32,594	0.008	0.086	0.000	0.000	0.000	0.000	0.000
Post_Investigate	32,594	0.013	0.112	0.000	0.000	0.000	0.000	0.000
New_Fund	32,594	0.234	0.424	0.000	0.000	0.000	0.000	1.000
New_Fund_Ct	32,594	0.708	2.450	0.000	0.000	0.000	0.000	2.000
New_Fund_Value	32,594	4.372	7.964	0.000	0.000	0.000	0.000	19.172
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
PE_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
Big4	32,594	0.537	0.474	0.000	0.000	0.777	1.000	1.000
IC	32,594	0.028	0.164	0.000	0.000	0.000	0.000	0.000
SentCount	32,594	5.666	0.503	5.050	5.328	5.638	5.984	6.328
FileSize	32,594	10.945	0.540	10.293	10.578	10.911	11.286	11.660
Positive	32,594	2.342	1.741	0.662	1.195	1.974	3.051	4.444
Negative	32,594	11.437	6.557	3.297	6.283	10.838	15.649	20.554
BE	32,594	5.147	2.178	2.577	3.521	4.854	6.438	8.122
BE_Positive	32,594	0.085	0.185	0.000	0.000	0.000	0.000	0.353
BE_Negative	32,594	0.427	0.467	0.000	0.000	0.335	0.676	1.095
%Systematic	32,594	1.354	0.715	0.558	0.783	1.204	1.797	2.390
LnMinInvest	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

		New_Fund	New_Fund_Ct	New_Fund_Value	Obs
Pre investigation	(1)	0.298	1.274	5.702	956
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***	

Table 2 (cont'd)

	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
PE_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)

Panel C: Univariate Statistics Pre-Entropy Balancing

Panel D: Univariate Statistics Post-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	21.780	4.695	0.214	0.000	(0.000)
Age	657	2.409	0.213	-0.733	31,937	2.409	0.214	-0.735	0.000	(0.000)
LnOwners	657	3.083	0.954	-0.056	31,937	3.083	0.954	-0.056	0.000	(0.000)
Misconduct	657	0.406	0.242	0.381	31,937	0.407	0.241	0.380	0.000	(-0.015)
IRR	657	13.680	8.866	1.879	31,937	13.680	8.867	1.878	0.000	(0.000)
HF_only	657	0.330	0.222	0.722	31,937	0.331	0.221	0.719	-0.001	(-0.027)
PE_only	657	0.172	0.143	1.738	31,937	0.172	0.143	1.735	0.000	(-0.027)
OwnedRelated	657	15.010	287.200	1.741	31,937	15.010	287.200	1.741	0.000	(0.000)
OwnedFoF	657	10.940	288.500	2.186	31,937	10.940	288.600	2.186	0.000	(0.000)
OwnedNonUS	657	19.290	487.100	1.185	31,937	19.300	487.100	1.184	-0.010	(-0.011)
Distance	657	2.891	3.735	0.3857	31,937	2.891	3.735	0.3855	0.000	(0.000)

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 the descriptives statistics whereas Panel B presents univariate comparisons of our new fund formation variables: *New_Fund, New_Fund_Ct*, and *New_Fund_Value. New_Fund* is an indicator variable taking the value of one if adviser *i* forms a new fund in year *t. New_Fund_Ct* is the number of new funds formed by adviser *i* in year *t. New_Fund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t. New_Fund_Value* on SEC investigation at some point during our sample period and those control sample advisers that are never subject to an SEC investigation during our sample period. Panel C (D) presents summary statistics before (after) entropy balancing. Appendix A describes all other variables, including the computation and source of each variable. ***, **, * represent statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	
Sample	Unwe	ighted	Entropy-	-Balanced <i>New Fund</i>	
DV=	New Fund	New Fund	New Fund		
Post_SEC	0.053*		0.081**		
	(1.865)		(2.300)		
Investigate		0.056		0.070*	
		(1.567)		(1.780)	
Post_Investigate		0.052		0.105**	
		(1.568)		(2.492)	
LnAUM	0.094***	0.094***	0.078***	0.079***	
	(21.814)	(21.814)	(5.206)	(5.311)	
Age	0.040***	0.040***	-0.021	-0.025	
	(4.614)	(4.613)	(-0.321)	(-0.385)	
LnOwners	-0.077***	-0.077***	-0.161***	-0.160***	
	(-13.503)	(-13.501)	(-7.464)	(-7.473)	
Misconduct	0.001	0.001	-0.083**	-0.086**	
	(0.092)	(0.093)	(-2.276)	(-2.355)	
IRR	0.001	0.001	0.007	0.007	
	(0.415)	(0.414)	(1.489)	(1.518)	
HF_only	-0.123***	-0.123***	-0.099**	-0.097**	
	(-9.440)	(-9.444)	(-2.472)	(-2.382)	
BO_only	-0.089***	-0.089***	-0.019	-0.018	
	(-4.407)	(-4.410)	(-0.537)	(-0.464)	
OwnedRelated	-0.000	-0.000	-0.001*	-0.001*	
	(-0.381)	(-0.381)	(-1.721)	(-1.677)	
OwnedFoF	0.001***	0.001***	0.001	0.001	
	(2.953)	(2.951)	(0.908)	(0.951)	
OwnedNonUS	0.001**	0.001**	0.000	0.000	
	(2.138)	(2.137)	(0.403)	(0.403)	
Distance	-0.004	-0.004	-0.002	-0.002	
	(-0.607)	(-0.606)	(-0.179)	(-0.176)	
Observations	32,594	32,594	32,594	32,594	
Adjusted R2	0.322	0.322	0.516	0.516	
Adviser FE	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	

Table 3Analysis of New Funds after SEC Investigations

\mathbf{I} abit \mathbf{J} (cont \mathbf{u})	Tabl	le 3 ((cont'd)
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	(1)	(2)	(3)	(4)	
Sample	Unwe	ighted	Entropy-Balanced		
DV=	New_Fund_Ct	New_Fund_Ct	New_Fund_Ct	New_Fund_Ct	
Post_SEC	0.918***		1.689**		
	(2.617)		(2.008)		
Investigate		1.018**		1.586*	
		(2.323)		(1.846)	
Post_Investigate		0.848**		1.899**	
		(2.212)		(2.063)	
LnAUM	0.392***	0.392***	0.477***	0.486***	
	(13.299)	(13.286)	(4.808)	(4.518)	
Age	-0.159**	-0.159**	-0.820**	-0.860**	
	(-2.560)	(-2.562)	(-2.003)	(-2.102)	
LnOwners	-0.289***	-0.288***	-0.579***	-0.574***	
	(-9.886)	(-9.862)	(-3.734)	(-3.745)	
Misconduct	0.196*	0.197*	0.303	0.276	
	(1.815)	(1.836)	(1.392)	(1.330)	
IRR	0.015	0.015	-0.091	-0.089	
	(0.872)	(0.870)	(-1.395)	(-1.390)	
HF_only	-0.207***	-0.209***	0.030	0.049	
	(-2.926)	(-2.941)	(0.155)	(0.240)	
PE_only	-0.585***	-0.586***	-0.355	-0.340	
	(-3.183)	(-3.191)	(-0.923)	(-0.852)	
OwnedRelated	-0.000	-0.000	-0.004	-0.004	
	(-0.371)	(-0.375)	(-0.754)	(-0.696)	
OwnedFoF	0.003**	0.003**	0.001	0.001	
	(2.527)	(2.517)	(0.174)	(0.203)	
OwnedNonUS	0.003**	0.003**	0.013**	0.013**	
	(2.495)	(2.494)	(2.078)	(2.073)	
Distance	-0.011	-0.011	0.142	0.142	
	(-0.241)	(-0.235)	(1.065)	(1.084)	
Observations	32,594	32,594	32,594	32,594	
Adjusted R2	0.444	0.444	0.711	0.711	
Adviser FE	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	

Panel B: Number of New Funds Formed after SEC Investigations

Table 3 (cont'd)

	(1)	(2)	(3)	(4)
Sample	Unwe	Unweighted		Balanced
DV=	New_Fund_Value	New_Fund_Value	New_Fund_Value	New_Fund_Value
Post SEC	1.224**		1.737**	
	(2.200)		(2.452)	
Investigate		1.220*		1.474*
		(1.763)		(1.887)
Post_Investigate		1.227*		2.272***
		(1.910)		(2.699)
LnAUM	1.883***	1.883***	1.645***	1.668***
	(23.273)	(23.273)	(5.964)	(6.111)
Age	0.654***	0.654***	-0.623	-0.725
	(3.938)	(3.938)	(-0.505)	(-0.579)
LnOwners	-1.427***	-1.427***	-3.047***	-3.035***
	(-13.351)	(-13.349)	(-7.143)	(-7.155)
Misconduct	0.046	0.045	-1.451**	-1.519**
	(0.174)	(0.173)	(-2.158)	(-2.261)
IRR	0.046	0.046	0.072	0.078
	(0.841)	(0.841)	(0.719)	(0.754)
HF_only	-2.138***	-2.138***	-1.686**	-1.637**
	(-8.907)	(-8.908)	(-2.236)	(-2.128)
PE_only	-1.767***	-1.767***	-0.587	-0.548
	(-4.586)	(-4.588)	(-0.845)	(-0.740)
OwnedRelated	-0.003	-0.003	-0.034**	-0.033**
	(-0.849)	(-0.849)	(-2.177)	(-2.129)
OwnedFoF	0.015***	0.015***	0.023	0.024
	(3.110)	(3.109)	(0.997)	(1.048)
OwnedNonUS	0.012**	0.012**	0.008	0.008
	(2.394)	(2.394)	(0.361)	(0.360)
Distance	-0.083	-0.083	-0.124	-0.123
	(-0.620)	(-0.620)	(-0.478)	(-0.476)
Observations	32,594	32,594	32,594	32,594
Adjusted R2	0.345	0.345	0.555	0.555
Adviser FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser

Panel C: New Fund Assets Under Management after SEC Investigations

This table presents regression estimates of new fund formation on SEC investigations. Panel A presents the results using *New_Fund* as the dependent variable, an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. Panel B presents results using *New_Fund_Ct* as the dependent variable where New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. Panel C presents results using *New_Fund_Value* as the dependent variable where *New_Fund_Value* is measured as the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. In each panel, columns 1 and 2 present results using our full sample of advisers subject to and not subject to an investigation without weighting each observation. Columns 3 and 4 of each panel estimate the same analysis using a weighted entropy balanced sample. Appendix A describes all other variables, including the computation and source of each variable. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	
Sample	Entropy-	Balanced	Entropy-Balanced		
DV=	Big4	Big4	IC	IC	
Post_SEC	0.031*		0.072**		
	(1.662)		(1.969)		
Investigate		0.052**		0.066*	
		(2.234)		(1.801)	
Post_Investigate		-0.010		0.085**	
		(-0.452)		(2.226)	
LnAUM	0.033***	0.031***	0.004	0.005	
	(2.701)	(2.697)	(0.598)	(0.686)	
Age	0.079*	0.087*	0.009	0.007	
	(1.673)	(1.847)	(0.401)	(0.286)	
LnOwners	0.024	0.023	0.004	0.005	
	(1.371)	(1.322)	(0.674)	(0.717)	
Misconduct	0.000	0.006	0.016***	0.015**	
	(0.016)	(0.207)	(2.584)	(2.229)	
IRR	0.002	0.001	0.000	0.000	
	(1.259)	(1.013)	(0.267)	(0.508)	
HF_only	0.045	0.042	-0.038*	-0.037*	
	(1.429)	(1.350)	(-1.807)	(-1.753)	
PE_only	0.038***	0.035***	-0.139*	-0.138*	
	(2.955)	(2.661)	(-1.689)	(-1.686)	
OwnedRelated	0.001	0.001	-0.000	-0.000	
	(1.345)	(1.297)	(-0.118)	(-0.065)	
OwnedFoF	-0.001	-0.001	0.001	0.001	
	(-1.202)	(-1.262)	(1.398)	(1.436)	
OwnedNonUS	0.001	0.001	-0.001*	-0.001*	
	(1.145)	(1.180)	(-1.799)	(-1.798)	
Distance	0.003	0.003	0.011	0.011	
	(0.144)	(0.149)	(1.208)	(1.230)	
Observations	32,594	32,594	32,594	32,594	
Adjusted R2	0.891	0.892	0.793	0.793	
Adviser FE	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	

 Table 4

 Analysis of Auditor and Internal Controls Choice after SEC Investigations

This table presents OLS regression estimates of Big 4 auditor usage and audits of internal controls surrounding SEC investigations. 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 PE fund *j* 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. 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. For each estimation, we use our weighted, entropy-balanced sample. Appendix A describes all other variables, including the computation and source of each variable. T-statitiscs are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Panel A: Analysis of Sentence Count and File Size of Form ADV, Part 2						
	(1)	(2)	(3)	(4)		
Sample	Entropy-	-Balanced	Entropy-	Balanced		
DV=	SentCount	SentCount	FileSize	FileSize		
Post_SEC	0.069**		0.073**			
	(2.175)		(2.025)			
Investigate		0.085**		0.084**		
		(2.515)		(2.184)		
Post_Investigate		0.042		0.052		
		(1.305)		(1.453)		
LnAUM	0.069***	0.068***	0.077***	0.076***		
	(4.583)	(4.575)	(5.123)	(5.143)		
Age	0.270***	0.280***	0.322***	0.326***		
	(3.770)	(3.952)	(3.710)	(3.769)		
LnOwners	0.004	0.003	0.001	0.001		
	(0.216)	(0.166)	(0.061)	(0.041)		
Misconduct	0.038**	0.041**	0.047**	0.050***		
	(2.089)	(2.349)	(2.576)	(2.761)		
IRR	-0.013*	-0.014*	-0.009*	-0.009*		
	(-1.831)	(-1.943)	(-1.832)	(-1.916)		
HF_only	-0.019	-0.022	-0.004	-0.006		
	(-0.888)	(-0.999)	(-0.189)	(-0.272)		
PE_only	-0.005	-0.006	-0.014	-0.016		
	(-0.094)	(-0.119)	(-0.248)	(-0.284)		
OwnedRelated	-0.001	-0.001	0	0		
	(-1.035)	(-1.141)	(-0.228)	(-0.292)		
OwnedFoF	0.002**	0.002**	0.002***	0.002***		
	(2.353)	(2.383)	(2.850)	(2.885)		
OwnedNonUS	0.001*	0.001*	0.001*	0.001*		
	(1.845)	(1.861)	(1.880)	(1.877)		
Distance	-0.012	-0.011	-0.021	-0.021		
	(-0.772)	(-0.768)	(-1.366)	(-1.381)		
Observations	32,594	32,594	32,594	32,594		
Adjusted R2	0.910	0.911	0.917	0.917		
Adviser FE	Yes	Yes	Yes	Yes		
Year FE	Yes	Yes	Yes	Yes		
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser		

Table 5Analysis of Disclosure after SEC Investigations

Table 5 (cont'd)

*	(1)	(1) (2) Entropy-Balanced		(4)
Sample	Entropy-			Balanced
DV=	Negative	Negative	Positive	Positive
Post_SEC	0.954**		0.009	
	(1.992)		(0.078)	
Investigate		1.124**		-0.015
		(2.237)		(-0.128)
Post_Investigate		0.608		0.056
		(1.302)		(0.454)
LnAUM	0.143	0.128	0.081	0.083
	(0.827)	(0.743)	(1.573)	(1.640)
Age	3.857***	3.923***	-0.058	-0.067
	(2.611)	(2.670)	(-0.190)	(-0.219)
LnOwners	0.723*	0.714*	-0.055	-0.054
	(1.761)	(1.750)	(-0.853)	(-0.842)
Misconduct	0.147	0.191	-0.09	-0.096
	(0.619)	(0.823)	(-1.084)	(-1.189)
IRR	-0.092*	-0.096*	0.002	0.003
	(-1.747)	(-1.872)	(0.253)	(0.304)
HF_only	-0.335	-0.367	0.133*	0.137*
	(-1.146)	(-1.248)	(1.694)	(1.757)
PE_only	0.004	-0.021	0.162	0.165
	(0.009)	(-0.049)	(1.142)	(1.138)
OwnedRelated	0.001	0.001	0.001	0.001
	(0.169)	(0.091)	(0.451)	(0.484)
OwnedFoF	0.013**	0.012**	-0.004	-0.004
	(2.117)	(2.041)	(-1.167)	(-1.184)
OwnedNonUS	-0.003	-0.002	0	0
	(-0.301)	(-0.293)	(-0.278)	(-0.287)
Distance	0.103	0.102	-0.009	-0.009
	(0.722)	(0.723)	(-0.226)	(-0.221)
Observations	32,594	32,594	32,594	32,594
Adjusted R2	0.897	0.897	0.863	0.863
Adviser FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser

Panel B: Analysis of Tone of Form ADV, Part 2

Table 5 (cont'd)

v	(1)	(2)	(3)	(4)	(5)	(6)
Sample	Entropy-	-Balanced	Entropy-	Entropy-Balanced		Balanced
DV=	BE	BE	BE Neg	BE Neg	BE Pos	BE Pos
Post_SEC	0.268**		0.145***		0.014	
	(2.015)		(2.923)		(1.380)	
Investigate		0.209		0.136***		0.016
		(1.488)		(2.607)		(1.466)
Post_Investigate		0.387**		0.163***		0.01
		(2.384)		(3.147)		(0.897)
LnAUM	-0.188***	-0.183***	-0.026**	-0.025**	0.001	0.001
	(-2.736)	(-2.692)	(-2.132)	(-2.092)	(0.232)	(0.183)
Age	-0.015	-0.038	0.266***	0.262***	0.021	0.022
	(-0.029)	(-0.076)	(2.968)	(2.951)	(0.847)	(0.880)
LnOwners	-0.13	-0.127	-0.008	-0.007	-0.004	-0.004
	(-1.426)	(-1.397)	(-0.540)	(-0.507)	(-0.946)	(-0.973)
Misconduct	0.075	0.06	0.078**	0.075**	0.011	0.011
	(0.516)	(0.431)	(2.198)	(2.132)	(0.968)	(1.005)
IRR	0.024	0.025	0.012	0.012	0	0
	(1.225)	(1.343)	(0.896)	(0.918)	(-0.491)	(-0.534)
HF_only	0.059	0.07	0.01	0.012	0.011	0.011
	(0.718)	(0.824)	(0.405)	(0.476)	(1.323)	(1.264)
PE_only	0.163	0.171	0.065	0.066	0.025**	0.025**
	(0.692)	(0.745)	(0.957)	(0.959)	(2.028)	(2.003)
OwnedRelated	-0.005	-0.005	0	0	0	0
	(-1.608)	(-1.557)	(-0.422)	(-0.358)	(-1.330)	(-1.367)
OwnedFoF	0.002	0.002	0.001	0.001	0	0
	(0.747)	(0.752)	(1.477)	(1.494)	(0.595)	(0.581)
OwnedNonUS	0	0	0.001	0.001	-0.000*	-0.000*
	(0.121)	(0.110)	(1.512)	(1.505)	(-1.944)	(-1.949)
Distance	-0.012	-0.012	-0.007	-0.007	-0.005	-0.005
	(-0.258)	(-0.262)	(-0.550)	(-0.545)	(-1.091)	(-1.094)
Observations	32,594	32,594	32,594	32,594	32,594	32,594
Adjusted R2	0.858	0.858	0.82	0.82	0.856	0.856
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser

Panel C: Analysis of Form ADV, Part 2 Disclosure Content and Tone

Tabl	le 5	(cont'	d)
		`	

	(1) (2) (3)		(3)	(4)
Sample	Entropy-	Balanced	Entropy-	Balanced
DV=	%Systematic	%Systematic	%Idiosyncratic	%Idiosyncratic
Post SEC	-0.097**	-	0.001	
	(-2.358)		(0.093)	
Investigate		-0.085**		0.004
Ū.		(-2.020)		(0.244)
Post Investigate		-0.122***		-0.004
_ 0		(-2.685)		(-0.228)
LnAUM	0.045***	0.044***	0.001	0.001
	(2.648)	(2.649)	(0.232)	(0.193)
Age	0.207	0.211	0.041	0.042*
0	(1.124)	(1.150)	(1.639)	(1.679)
LnOwners	0.067	0.067	0.008	0.008
	(1.254)	(1.247)	(1.103)	(1.089)
Misconduct	-0.002	0.001	0.016	0.017
	(-0.085)	(0.065)	(1.392)	(1.445)
IRR	0	0	0	0
	(0.055)	(-0.036)	(0.178)	(0.112)
HF only	0.023	0.021	0.019	0.018
_ /	(1.307)	(1.173)	(1.511)	(1.481)
PE only	-0.021	-0.023	-0.001	-0.001
2	(-0.593)	(-0.677)	(-0.037)	(-0.056)
OwnedRelated	0.001	0.001	0	0
	(1.441)	(1.413)	(-0.511)	(-0.543)
OwnedFoF	0.002***	0.002***	0.001**	0.001**
	(3.213)	(3.056)	(2.491)	(2.505)
OwnedNonUS	0	0	-0.001***	-0.001***
	(0.330)	(0.340)	(-2.868)	(-2.864)
Distance	0.009	0.009	-0.008	-0.008
	(0.422)	(0.421)	(-1.523)	(-1.512)
Observations	32,594	32,594	32,594	32,594
Adjusted R2	0.906	0.906	0.889	0.889
Adviser FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser

Panel D: Risk Disclosur	e in Form	ADV. Part 2
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This table presents regression estimates of various disclosures in Form ADV, Part 2 on SEC investigations. Panel A presents the results regarding the quantity of disclosure in Form ADV, Part 2. Specifically, Panel A, columns 1 and 2 (3 and 4) estimates the effect of SEC investigations on SentCount (FileSize), which is the natural logarithm of the total number of sentences (total number of characters in the filing) in Form ADV, Part 2 for adviser i in year t. Panel B, columns 1 and 2 (3 and 4) estimates the effect of SEC investigations on Negative (Positive) as the dependent variable, which is the percentage of negative (positive)-tones sentences in Form ADV, Part 2 for adviser i in year t. Panel C, column 1 and 2 estimates the effect of SEC investigations on BE as the dependent variable, which is the percentage of sentences discussing business ethics topics in Form ADV, Part 2 for adviser i in year t. Panel C, columns 3 and 4 (5 and 6) use the dependent variable BE_Negative (BE_Positive) as the dependent variable, which is the percentage of negatively (positively)toned sentences discussing business ethics topics in Form ADV, Part 2 for adviser i in year t. Panel D, columns 1 and 2 (3 and 4) estimates the effect of SEC investigations on %Systematic (%Idiosyncratic) as the dependent variable, which is the percentage of sentences in Form ADV, Part 2 discussing systematic (idiosyncratic) risk topics, as defined in Campbell et al. (2014) for adviser i in year t. Each panel uses the weighted, entropybalanced sample. Appendix A describes all other variables, including the computation and source of each variable. 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 New Funds after SEC Investigations, by Adviser Size and Insider Owne	rship

	Sectionar Than	515 by Mathematica					
	(1)	(2)	(3)	(4)	(5)	(6)	
Sample		Large Adviser	S	Small Advisers			
DV=	New_Fund	New_Fund_Ct	New_Fund_Value	New_Fund	New_Fund_Ct	New_Fund_Value	
Post_SEC	0.076**	1.582*	1.649**	-0.011	0.007	-0.221	
	(1.978)	(1.739)	(2.106)	(-0.163)	(0.054)	(-0.195)	
LnAUM	0.083***	0.613***	1.811***	0.013	0.064	0.142	
	(2.773)	(3.021)	(3.084)	(0.414)	(1.347)	(0.242)	
Age	0.005	-0.92	-0.174	0.045	0.189	1.117	
	(0.056)	(-1.483)	(-0.099)	(0.796)	(1.524)	(1.132)	
LnOwners	-0.186***	-0.727***	-3.567***	-0.086***	-0.169***	-1.453***	
	(-7.009)	(-3.748)	(-6.762)	(-2.723)	(-3.940)	(-2.770)	
Misconduct	-0.118***	0.462	-2.010***	0.078	0.093	1.242	
	(-2.982)	(1.568)	(-2.628)	(1.374)	(1.139)	(1.367)	
IRR	0.008	-0.092	0.087	0.001	-0.009	0.034	
	(1.582)	(-1.277)	(0.750)	(0.161)	(-0.681)	(0.227)	
HF_only	-0.082*	0.213	-1.429	-0.216***	-0.300***	-3.836***	
	(-1.709)	(0.905)	(-1.575)	(-3.241)	(-4.258)	(-3.045)	
PE_only	0.01	-0.442	-0.114	-0.111***	-0.235	-1.959***	
	(0.233)	(-0.940)	(-0.136)	(-2.869)	(-1.496)	(-2.979)	
OwnedRelated	-0.002**	-0.004	-0.049**	-0.001	-0.003	-0.029	
	(-2.086)	(-0.639)	(-2.496)	(-0.610)	(-1.163)	(-0.939)	
OwnedFoF	0.001	0.001	0.025	0.001	0.002	0.02	
	(0.746)	(0.141)	(0.904)	(0.717)	(0.833)	(0.678)	
OwnedNonUS	0	0.017**	0.001	0	0	-0.007	
	(0.085)	(2.159)	(0.041)	(-0.197)	(0.033)	(-0.184)	
Distance	-0.015	0.195	-0.412	0.01	-0.007	0.148	
	(-0.787)	(0.850)	(-1.085)	(0.897)	(-0.318)	(0.820)	
Observations	16,026	16,026	16,026	15,965	15,965	15,965	
Adjusted R2	0.506	0.712	0.54	0.407	0.513	0.391	
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	

Panel A: Cross-Sectional Analysis by Adviser Size

Table 6 (cont'd)

	(1)	(2)	(3)	(4)	(5)	(6)	
Sample	E	ligh Inside Owne	rship	Low Inside Ownership			
DV=	New_Fund	New_Fund_Ct	New_Fund_Value	New_Fund	New_Fund_Ct	New_Fund_Value	
Post_SEC	0.116**	1.281	2.324**	0.053	0.641	0.917	
	(2.462)	(1.328)	(2.401)	(0.757)	(1.265)	(0.685)	
LnAUM	0.088***	0.535***	1.844***	0.059***	0.456***	1.306***	
	(3.365)	(2.616)	(3.779)	(2.601)	(2.984)	(2.856)	
Age	0.032	-0.411	0.4	-0.007	-0.249	-0.083	
	(0.174)	(-0.473)	(0.113)	(-0.122)	(-0.567)	(-0.076)	
LnOwners	-0.169***	-0.722***	-3.207***	-0.108***	-0.372*	-2.066***	
	(-4.095)	(-3.573)	(-4.080)	(-3.722)	(-1.870)	(-3.614)	
Misconduct	-0.097*	0.371	-1.636	-0.087*	0.27	-1.617*	
	(-1.762)	(1.067)	(-1.605)	(-1.693)	(0.871)	(-1.712)	
IRR	0.013	-0.426	0.207	0.008*	-0.048	0.088	
	(1.128)	(-1.366)	(0.916)	(1.834)	(-0.769)	(0.875)	
HF_only	-0.053	0.217	-0.862	-0.122*	-0.061	-2.094*	
	(-0.889)	(0.746)	(-0.759)	(-1.852)	(-0.234)	(-1.658)	
PE_only	0.133	-0.867	0.803	-0.093	-0.026	-1.377	
	(1.302)	(-0.975)	(0.460)	(-1.394)	(-0.058)	(-1.364)	
OwnedRelated	-0.003***	-0.004	-0.069***	0.001	-0.006	-0.025	
	(-2.705)	(-0.686)	(-2.890)	(0.123)	(-0.072)	(-0.127)	
OwnedFoF	-0.002	-0.001	-0.029	0.005**	0.012*	0.108**	
	(-1.454)	(-0.097)	(-1.439)	(2.413)	(1.813)	(2.487)	
OwnedNonUS	0.001	0.021*	0.014	-0.001	0	-0.033	
	(0.281)	(1.863)	(0.361)	(-1.233)	(0.023)	(-1.390)	
Distance	0.024	0.108	0.314	-0.022	0.173	-0.542*	
	(0.999)	(0.522)	(0.578)	(-1.233)	(0.889)	(-1.872)	
Observations	15,858	15,858	15,858	15,890	15,890	15,890	
Adjusted R2	0.516	0.717	0.558	0.522	0.694	0.554	
Adviser FE	Yes	Yes	Yes	Yes	Yes	Yes	
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	
Clustered SE	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	

Panel B: Cross-Sectional Analysis by Adviser Inside Ownership

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 4, 2 and 5, and 3 and 6 presents results using New_Fund, New_Fund_Ct, and New_Fund_Value as the dependent variable, respectively. New_Fund is an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. Appendix A describes all other variables, including the computation and source of each variable. 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 New Fund Formation after SEC Investigations,	by Fi	und Type

·	(1)	(2)	(3)	(4)	(5)	(6)
Sample]	Buyout Fund Adv	visers]	Hedge Fund Adv	isers
DV=	New_Fund	New_Fund_Ct	New_Fund_Value	New_Fund	New_Fund_Ct	New_Fund_Value
Post_SEC	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	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser

Panel A: Buyout and Hedge Fund Advisers

Panel B: Venture Capital and Real Estate Fund Advisers

	(1)	(2)	(3)	(4)	(5)	(6)	
Sample	Vent	ure Capital Fund	l Advisers	Real Estate Fund Advisers			
DV=	New_Fund	New_Fund_Ct	New_Fund_Value	New_Fund	New_Fund_Ct	New_Fund_Value	
Post_SEC	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	By Adviser	By Adviser	By Adviser	By Adviser	By Adviser	By 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 *New_Fund*, *New_Fund_Ct*, and *New_Fund_Value* as the dependent variable, respectively. *New_Fund* is an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. *New_Fund_Ct* is the number of new funds formed by adviser *i* in year *t*. *New_Fund_Value* is measured as the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. Appendix A describes all other variables, including the computation and source of each variable. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Model #	(1)	(2)	(3)
Sample	Entropy-Balanced	Entropy-Balanced	Entropy-Balanced
DV=	New_Fund	New_Fund_Ct	New_Fund_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	0.12	2.889*	2.723*
	(1.594)	(1.816)	(1.792)
Investigate_2	0.091	3.571*	2.374
	(1.215)	(1.941)	(1.578)
Post_Investigate	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	By Adviser	By Adviser	By Adviser

Table 8Analysis of Parallel Trends Assumption

This table presents OLS regression estimates of fund formation surrounding SEC investigations. Columns 1, 2, and 3 present results using the dependent variable *New_Fund*, *New_Fund_Ct*, and *New_Fund_Value*, respectively. *New_Fund* as the dependent variable, an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. *New_Fund_Ct* is the number of new funds formed by adviser *i* in year *t*. *New_Fund_Value* is measured as the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. *New_Fund_Value* is measured as the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. *Pre-Investigate_2*, and *Pre-Investigate_1* are indicator variables taking the value of 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 taking the value of one for observations that are one (two) years after the opening of an SEC investigation and zero otherwise. *Post_Investigation*, is an indicator equal to one for all adviser-years after an SEC's investigation of the adviser is complete and zero otherwise. For each estimation, we use our weighted, entropy-balanced sample. Appendix A describes all other variables, including the computation and source of each variable. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 9
Stacked Difference-in-Difference for New Funds after SEC Investigations

Model #	(1)	(2)	(3)
DV=	New_Fund	New_Fund_Ct	New_Fund_Value
Post_SEC	0.056**	0.953***	1.279**
	(1.977)	(2.667)	(2.318)
Observations	249,172	249,172	249,172
Adjusted R2	0.316	0.425	0.338
Controls	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Clustered SE	By Adviser	By Adviser	By Adviser

This table presents regression estimates of new fund formation on SEC investigations using a stacked cohort difference-in-difference analysis. Column 1 presents the results using New_Fund as the dependent variable, an indicator variable taking the value of one if adviser *i* forms a new fund in year t. Column 2 presents results using New_Fund_Ct as the dependent variable where New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. Column 3 presents results using New_Fund_Value as the dependent variable where New_Fund_Value as the dependent variable where New_Fund_Value is measured as the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. In each model, we use our weighted entropy balanced sample. Appendix A describes all other variables, including the computation and source of each variable. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Model #	(1)	(2)	(3)
Sample	Entropy-Balanced	Entropy-Balanced	Entropy-Balanced
DV=	New_Fund	New_Fund_Ct	New_Fund_Value
Post_SEC*Enforce	0.057	1.258	0.856
	(0.871)	(1.094)	(0.671)
Post_SEC*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	By Adviser	By Adviser	By Adviser

Table 10
Analysis of SEC Enforcement following Investigation

This table presents OLS regression estimates of fund formation surrounding SEC investigations. Columns 1, 2, and 3 present results using the dependent variable New_Fund, New_Fund_Ct, and New_Fund_Value, respectively. New_Fund as the dependent variable, an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. New_Fund_Ct is the number of new funds formed by adviser *i* in year *t*. Post_SEC*Enforce (Post_SEC*Non-Enforce) is the interaction between Post_SEC, an indicator equal to one for all adviser-years after an SEC's investigation of the adviser *i* was (was not) subject to an SEC enforce (Non-Enforce), an indicator variable taking the value of one if adviser *i* was including the computation and source of each variable. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.