SEC Oversight of Private Equity and Hedge Funds

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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' disclosure and governance, facilitating capital formation. However, private fund investors may focus on private communication with funds or attributes other than disclosure and governance, suggesting no effect of SEC oversight. Consistent with benefits of SEC oversight, we find an increase in fundraising for investigated advisers following SEC investigations. Consistent with our proposed mechanisms, we find an increase in advisers' governance over financial reporting as well as increased disclosure transparency following investigations. Moreover, we observe increases in fundraising concentrate in advisers with improved disclosures. Altogether, our evidence suggests that SEC investigations provide indirect oversight of advisers, improving information for 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, including public firms, mutual funds, and investment advisers of private funds, with an overall goal of protecting investors. While substantial prior research examines the SEC's role in regulating public firms and influencing corporate governance (e.g., Blackburne, Kepler, Quinn, and Taylor 2021; Holzman, Marshall, and Schmidt 2024), there is little evidence on the effects of SEC oversight on private funds. These private funds – including private equity and hedge funds – control a significant and growing share of global assets, yet they are more opaque and face less external monitoring than public firms or mutual funds. On the other hand, private funds have a broader array of direct communication channels to investors, all of whom must meet requirements indicating a level of financial sophistication, making the need for oversight less clear. This study provides initial insights into the effects of SEC investigations on private fund advisers.

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. 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 of about 10 to 14 years, advisers who desire to stay in business must continually fundraise (Arcot et al. 2015).

We examine three research questions regarding the impact of SEC investigations on private fund advisers. First, we assess whether SEC investigations affect advisers' ability to raise new funds and the amount of capital raised. Second, we explore the potential disclosure and governance changes that advisers make following investigations. To explore disclosure, we use a large language model (FinBERT; Huang et al. 2023) and adviser's SEC filings (Form ADV Part 2) to assess changes in the quantity, tone, or content of advisers' disclosures to LPs following an SEC

investigation. To explore governance, we examine whether an adviser engages a Big 4 auditor or obtains an internal controls audit following an SEC investigation. Third, we connect our first two research questions by examining whether changes in disclosure or governance lead to changes in fundraising ability.

These questions are important for several reasons. First, private markets are increasingly important to the economy, with private equity (e.g., buyout, venture capital, real estate, natural resources, infrastructure) global assets under management of $13.1 trillion as of June 2023 (McKinsey 2024) and hedge fund assets under management of $4.3 trillion as of the first quarter of 2024 (Reuters 2024). Second, with the growth 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, because private funds face more limited monitoring by financial analysts, LPs, auditors, creditors, and boards of directors than public firms (e.g., Easton, Larocque, Mason, and Utke 2024), regulatory oversight may have a different impact on private funds than on public firms. Overall, our study is of interest to academics, regulators, and LPs seeking to better understand how regulatory oversight affects the choices and activities of private fund advisers.

We use a staggered difference-in-differences analysis to examine the effect of formal SEC *investigations* of investment advisers or investment companies on advisers' fundraising ability and disclosure and governance choices.[2] Typically, the SEC initiates an investigation by notifying the target entity of the inquiry and requesting documentation and information. To preserve the integrity

[1] https://www.sec.gov/news/press/2010/2010-5.htm. Not all investment advisers are private fund advisers.
[2] The SEC groups investment companies with advisers. In our paper, we simply refer to these as advisers or GPs.

of the process and to protect evidence and the reputations of those under investigation, investigations generally remain private unless and until the SEC files an action either in court or through an administrative proceeding (Blackburne et al. 2021). Importantly, the initiation of an SEC investigation does not automatically indicate wrongdoing, but investigations can result in serious consequences if they lead to enforcement, including administrative actions, lawsuits, negative publicity, or reputation damage. In recent years, advisers have been a common target of SEC enforcement actions. For example, in 2022, enforcement against advisers constituted 23% (the highest percentage) of all enforcement actions.[3]

Ex ante, it is unclear how SEC investigations affect advisers' ability to fundraise, and their disclosure and governance choices. On one hand, investigations could lead advisers to increase transparency or improve governance, which could reduce agency conflicts and increase advisers' fundraising ability. On the other hand, SEC investigations could harm advisers' ability to fundraise if investigations are not entirely private, leading to reputational concerns among prospective LPs. Finally, SEC investigations could have no effect on fundraising if investigations are unknown to LPs or if LPs are not concerned with the issues targeted by the SEC. Similarly, investigations could lead to changes in disclosure or governance that satisfy the SEC but are not relevant to LPs.

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.[4] Importantly, Form ADV includes information about both advisers and

[3] https://www.sec.gov/files/fy22-enforcement-statistics.pdf.

[4] 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 disclosure (see Campbell, Davidson, Mason and Utke 2024). We combine data from Form ADV, Part 1 and Part 2 in this study.

the individual private funds managed by each adviser. We combine Form ADV, Part 1 and 2 data with all SEC investigations of advisers obtained from the SEC through FOIA requests. We hand match these data sources on adviser name and retain only advisers that manage private funds. In an average year, only about 0.8% of advisers are under SEC investigation, consistent with private funds being lightly regulated.[5] Using this data, we compare fundraising, governance, and disclosures of the treated sample (i.e., adviser-years after the initiation of SEC investigations) and the control sample (i.e., adviser-years before the initiation of SEC investigations and adviser-years for advisers who have never been investigated) in a staggered difference-in-differences design. To account for systematic differences between our treatment and control samples, we include adviser fixed effects, use an entropy-balanced sample throughout, and 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' fundraising ability improves 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 investigated advisers raise an additional $190.1 million in capital following an investigation, which is economically significant and equates to 15% of the standard deviation in new fund value raised. In later analyses, we examine the mechanisms underlying these improvements in fundraising ability.

We next explore whether advisers alter their disclosure or governance choices in response to SEC investigations. We first explore whether advisers' disclosures become more transparent following SEC investigations using Form ADV, Part 2, often referred to as an adviser's 'brochure.'

[5] 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 advisers in our sample, from about 0.4% in early 2010s to over 1% in recent years.

Brochures are similar in concept to the business overview (item 1) and risk factor (item 1A) sections in a 10-K, containing plain-language narratives of numerous items 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 sentiment) of each sentence in the brochure. We also measure language related to business ethics, corporate governance, and legal topics. We find that advisers provide longer, but more negative-toned, disclosure following an SEC investigation. Regarding specific topics in Form ADV, Part 2, we find that advisers increase their discussions of business ethics and legal topics following investigations. Overall, the evidence suggests that advisers increase the quantity and transparency of their disclosure following SEC investigations.

Next, we use Form ADV, Part 1 to identify advisers' choice to engage a Big 4 auditor or to obtain an audit over their internal controls. We view both choices as increasing the quality and strictness of governance 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. In sum, we find that SEC investigations are associated with enhancements in disclosure and governance.

Given our evidence that SEC investigations improve fundraising, along with disclosure and governance, we examine the extent to which disclosure and governance are mechanisms underlying improved fundraising. A formal channel test indicates that the increase in fundraising ability arises from advisers who enhance disclosure following SEC investigations. However, we fail to find similar fundraising benefits for advisers that strengthen corporate governance by hiring a Big 4 auditor or obtaining an internal controls audit. This result is consistent with Gaver, Mason, and Utke (2023) who find limited fundraising benefits to stricter financial reporting choices.

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 advisers and advisers with more inside ownership in their funds, which are generally advisers that may face more agency conflicts. 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 finding that results only appear after investigations. Finally, we examine whether our results are driven by advisers that ultimately face enforcement actions from the SEC, rather than just an investigation. We find that advisers ultimately facing enforcement do not drive results.

Our paper contributes to multiple streams of literature. First, we contribute to the literature on monitoring in private funds. Private fund markets lack key external monitors that exist in public capital markets—such as short sellers, analysts, and the media—that prior research suggests benefit capital formation for public companies and mutual funds. We find that the SEC plays a significant monitoring role such that advisers 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 face increasing capacity and resource constraints.

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. 2025) and the disclosure of environmental information (e.g., Campbell et al. 2024), affect advisers' fundraising. Further, we provide important insight suggesting private fund advisers improve disclosure and governance following SEC investigations, adding to the literature on the disclosure

and reporting choices of private fund advisers. Disclosure improvements improve fundraising.

Finally, our paper contributes to the literature on SEC investigations and enforcement. Existing research focuses on the 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 effect of SEC investigations on private fund advisers. We also provide new 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 U.S. 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 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). Investigations can last several years. 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 oversight, SEC enforcement against investment advisers and investment 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 consist of sophisticated investors (e.g., institutions, university endowments, pension plans, etc.). 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 (new) LPs ability to exit (enter) 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, some 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 organizational structure of private funds creates two layers of agency costs. First, agency conflicts arise between LPs and GPs due to asymmetric information (e.g., Leland and Pyle 1977; Diamond 1984; Phalippou 2009; Metrick and Yasuda 2010, 2011; Crain 2018). Second, agency conflicts exist between GPs and their underlying portfolio companies, which GPs partially mitigate by exerting influence over these companies' operating, financing, and reporting decisions (e.g., Kaplan 1989; Jensen 1989; Lerner 1995; Zimmerman 2016; Cohn, Hotchkiss, and Towery 2022). Our study focuses on the former agency conflict, which largely affects a GP's ability to raise capital from external LPs. Fundraising is 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. (2025) 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.

Because private funds are inherently opaque and have no mandate to disclose investigations (in contrast to enforcement actions; Jiang et al. 2025), SEC investigations may not directly affect advisers' fundraising if LPs are unaware of any investigation. Further, LPs may focus primarily on other fund attributes (e.g., performance) rather than issues that may concern the SEC. However, unlike public companies and mutual funds, private funds lack key external monitors—such as short sellers, analysts, and the media—that prior research suggests benefit capital formation. Consequently, the SEC may serve as a particularly important external monitor for private funds by deterring opportunistic behavior by advisers and encouraging them to improve governance and disclosure. These effects could reduce agency conflicts between GPs and LPs, enhancing fundraising. 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.

Because of 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. 2023) following SEC investigations. Collectively, the improved disclosure and credibility reduces information asymmetry between GPs and LPs (Leuz and Verrecchia 2000); resolving information asymmetry issues may be especially important to LPs following the initiation of an SEC investigation. However, sophisticated LPs have direct access to GPs. If LPs already have inside information from GPs, they likely place little value on any additional disclosure. Further, the disclosure we study, Form ADV, Part 2, is a mandatory filing that may simply be boilerplate. Private fund advisers could also leave disclosure unchanged in order to avoid disclosing information that makes LPs 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 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; Baginski et al. 2016). As such, private fund advisers may use positive tone or content to obfuscate any negative information related to an SEC investigation (Henry 2008; Rogers et al. 2011; Huang et al. 2014). However, advisers could use more negative tone or content (e.g., discussion of business ethics) to increase transparency, which 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, different than in public markets, advisers may find little benefit to altering tone and content 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:

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

Another potential avenue by which private fund advisers may respond to SEC investigations is through governance changes. 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 adviser 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. 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 (Mason, Utke, and Weber 2023). On the other hand, strict financial reporting may be of limited value for advisers, especially since sophisticated LPs in private funds have inside access to fund advisers (i.e., Regulation Fair Disclosure [Reg FD] does not apply). Further, because SEC investigations

often remain undisclosed (Blackburn et al. 2021), LPs 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:

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

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

III. DATA, RESEARCH DESIGN, AND DESCRIPTIVE STATISTICS

3.1 Data

To answer our research questions, we require data on SEC investigations, adviser and fund characteristics, and adviser disclosures. First, we obtain information on SEC investigations that pertain to investment advisers or investment companies. 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.[6]

Next, we obtain SEC filings of Form ADV, Part 1. Following the passage of Dodd-Frank in 2010, advisers to private funds are generally required to file Part 1 of Form ADV with the SEC within 90 days of their fiscal year-end.[7] Form ADV, Part 1 contains information for each private

[6] 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. In our paper, we focus on investigations with the primary reason listed as "IA/IC" (investment advisers or investment companies).

[7] 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

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).[8] We then implement a matching process to combine the data on SEC investigations with the Form ADV filings. To complete our matching process, we first implement an exact name matching algorithm between the advisers listed as under investigation with the name provided by the investment adviser on Form ADV. For those advisers that we were unable to find an exact match, we manually match adviser names from SEC investigations to Form ADV.

Our sample 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 data is available.[9] We end our sample period in 2019 because our investigation dataset only includes cases closed before December 30, 2022, and most investigations started during or after 2020 are not included. Investment advisers can be subject to multiple investigations concurrently. Following Blackburne and Quinn (2023), we consolidate concurrent investigations into a single continuous investigation period.[10]

We initially obtain data for 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

required to register with their state. See https://www.sec.gov/news/press/2011/2011-133.htm for additional details on the SEC's registration requirements for investment advisers, with a focus on amendments instituted by Dodd-Frank.

[8] 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 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.

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

[10] We define concurrent investigations as cases that remain open within a 365-day window.

they manage.[11] Following these restrictions, we retain 39,036 adviser-year observations (7,309 unique advisers of private funds). We further restrict this sample to include only those advisers with primarily domestic operations based on the postal code of their principal offices, reducing our sample by 3,047 adviser-year observations (635 unique advisers).

To address our research questions related to disclosure changes following SEC investigations, we also require advisers to file Form ADV, Part 2. Part 2, referred to as an adviser's "brochure," must be filed with the SEC within 120 days of an adviser's fiscal year end by all non-exempt investment advisers following the passage of Dodd-Frank (see SEC Release IA-3060, 2010). Exempt advisers are advisers who manage less than $150 million in assets or solely advise venture capital funds. These advisers are not required to obtain an annual audit over their financial reporting (Gaver et al. 2023). Using only advisers that are non-exempt and thus required to file Part 2 of Form ADV and obtain an audit, mitigates concerns that any results 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). Requiring 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, 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.

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

3.2 Research Design

To examine the impact that SEC investigations have on advisers' fundraising, we implement a generalized difference-in-difference regression analysis using multiple measures of fundraising. First, we use *NewFund_Ind* 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, *NewFund_Count*, which is 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 *NewFund_Value* as our dependent variable, which is calculated as the natural logarithm of one plus 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 *SEC×Post*, 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 advisers take 3 years on average, we separately explore fundraising during and after the SEC's investigation period. To do so we estimate our difference-in-difference model by including both *SEC×During* and *SEC×After*. *SEC×During* (*SEC×After*) is an indicator variable taking the value of one if the adviser-year falls after the open date but before the close date (after the close date) of the SEC's investigation. Our treated sample (*SEC×Post* = 1) includes 657 adviser-year observations (191 unique advisers), while our control sample (*SEC×Post* = 0) includes 31,937 adviser-year observations (5,384 unique advisers).

3.3 H1 Regression Model

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:

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

Where *i* denotes adviser and *t* denotes year. The dependent variable, *Fundraising*, refers to one of three dependent variables discussed above, *NewFund_Ind, NewFund_Count,* or *NewFund_Value.* When estimating each model of fundraising, we first estimate a model including only *SEC*×*Post*, followed by a model including both *SEC*×*During* and *SEC*×*After*. We include adviser and year fixed effects, and cluster standard errors by adviser. Adviser (year) fixed effects absorb the main effect of *SEC* (*Post*). We also estimate the model before and after entropy balancing the sample to the third moment (mean, variance, skewness) to alleviate concerns of functional form misspecification. All continuous variables are winsorized at the 1st and 99th percentiles.

Controls is a vector of control variables in time *t-1* that likely affect fundraising. Following existing research (e.g., Campbell et al. 2024; Jiang et al. 2025), 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*). Ownership variables relate to the fund-, rather than adviser-, level so we follow Gaver et al. (2023) to aggregate them to the adviser-level by using a weighted average where the weight is each fund's assets under management. We also include an indicator variable, *Misconduct*, identifying advisers with past regulatory, civil, or criminal misconduct, which affects advisers' fundraising efforts (Jiang et al. 2025). To account for differences in fundraising due to

the type of fund, we include *HF_only* and *BO_only*, which are indicator variables 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. 2025). Finally, we account for the distance between the regional SEC office and the adviser's principal office (*Distance*) to capture the potential that fundraising is affected by the difficulty in an adviser's administrative handling of the SEC's investigation or the intensity of the investigation. Appendix A reports additional details for each variable's description, computation, and source.

3.4 H2 Regression Model

Our second hypothesis relates to how SEC investigations affect advisers' disclosures. Using Form ADV, Part 2 filings, we construct various disclosure measures based on textual analysis using the FinBERT model developed by Huang et al. (2023). We first identify the quantity of total disclosure using the natural logarithm of the number of sentences of each Part 2 (*SentCount*). We then use FinBERT's sentiment model to classify each sentence as either negative, positive, or neutral. We then measure the general tone of each Part 2 (*Tone*) as the percentage of sentences classified as positive minus the percentage of sentences classified as negative. As previously discussed, we are also interested in how the specific content of information disclosed in Part 2 changed following SEC investigations. Therefore, we also measure the extent to which

business ethics (*Ethics*), corporate governance (*CorpGov*), and legal topics (*Legal*) are discussed in each Part 2 filing. We measure the percentage of sentences that relate to *Ethics* and *CorpGov* using the ESG FinBERT model. Given FinBERT is not trained to identify legal topics, we use the legal risk word list developed by Campbell et al. (2014) to measure the percentage of words related to legal topics in each Part 2 (*Legal*).

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

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

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

3.5 H3 Regression Model

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

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

Where the dependent variable, *Governance*, 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

and H2, our variables of interest include *SEC×Post* or *SEC×During* and *SEC×After*. *Controls* is the same vector of controls described in previous models. Also consistent with our previous models, we use an entropy-balanced sample, include adviser and year fixed effects, and cluster standard errors by adviser.

3.6 Descriptive Statistics

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

To provide initial evidence on the effect of SEC investigations on fundraising, we compare differences in fundraising before, during, and after an SEC investigation for our sample of treated advisers. We present these univariate statistics in Table 2, Panel B. We find a significant increase in advisers' fundraising – across all three measures of fundraising (*NewFund_Ind*, *NewFund_Count*, *NewFund_Value*) – both during and following an SEC investigation. Further, Panel C and Panel D provide the similar univariate statistics for advisers' disclosure and governance choices where we observe increases in disclosure and enhanced governance in periods following the initiation of SEC investigations. These univariate comparisons provide preliminary evidence that SEC oversight, in the form of an investigation, provides a benefit to advisers through an increased ability to raise new funds, increased disclosure, and improved governance. This suggests the SEC oversight may alleviate some agency costs between GPs and LPs, allowing for increased fundraising ability by the GP. However, we refrain from drawing stronger conclusions

from this univariate analysis that does not account for other variables (e.g., performance) known to influence adviser fundraising.

We next compare treated advisers to control advisers to identify significant differences across groups for our control variables. We present these univariate comparisons in Table 2, Panel E. We observe significant differences across nearly all control variables between investigated advisers and those not subject to an SEC investigation. Investigated advisers are larger, older, have more investors, and have significantly better performance than other advisers. However, investigated advisers are less likely to specialize in managing only one type of fund and are generally further away from the SEC's regional office. Because of the significant differences between our treated and control samples, and the concern these differences are systematically related to advisers' fundraising activities, we control for these factors and implement an entropy balancing methodology to ensure covariate balance between treated and control advisers across our control variables to the third moment (mean, variance, skewness). We present the univariate comparisons between investigated advisers and control advisers after our entropy balancing in Table 2, Panel F. As expected, entropy balancing reduces differences across our control variables between treated and control advisers. 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 presents results from estimating Equation 1 assessing the impact of SEC investigations on fundraising using an unweighted sample (Panel A) and an entropy balanced sample (Panel B). We find a 5.3% increase in the likelihood of raising a new fund (coefficient on *SEC×Post* in Panel A, column 1) following the initiation of an SEC investigation. This is

equivalent to a 22.6% increase over the sample average fundraising of 23.4% (0.053 / 0.234). Similarly, in column 3 we observe a 150% higher count of new funds started (exp[0.918] - 1). This is equivalent to raising 3 additional funds at the mean (150% * exp[0.708]). Lastly, when analyzing the amount of new capital raised in column 5, we find a positive and significant coefficient on *SEC×Post* of 1.224 (1.737). 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 *NewFund_Value* (coefficient of 1.224 divided by the standard deviation of *NewFund_Value* of 7.964). For context, the coefficient on *LnAUM* is 1.883 in Panel A, column 5 suggesting a one standard deviation 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 *NewFund_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. Overall, the evidence in Panel A suggests there is a statistically significant and economically meaningful relation between SEC investigations and advisers ability to raise new funds.[12] Results are stronger in both in magnitude and statistical significance when using our entropy balanced sample in Panel B. For example, we estimate in Panel B, column 1 an 8.1% higher likelihood of raising a new fund for advisers following an SEC investigation. In sum, we find consistent evidence that advisers subject to SEC

[12] We estimate Equation 1 as a generalized difference-in-differences model. In untabulated analyses, we re-estimate Equation 1 using a stacked difference-in-differences design to verify the results are robust (Baker, Larcker, and Wang 2022). To do so, we assign treated and control firms to cohorts where control firms are those that are never under SEC investigation. We create cohorts based on the year investigations start. Using the stacked design, we estimate significant coefficients on *SEC×Post* of 0.056, 0.953, and 1.279 when *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value* are the dependent variables, respectively. These results are very similar to the coefficients presented in Panel A of Table 3 (0.053, 0.918, and 1.224, respectively).

investigations are more likely to raise at least one new fund, increase the number of new funds they raise, and raise more capital in total, rejecting the null H1.

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 2, 4 and 6 in each Panel present the results using *SEC×During* and *SEC×After* in the estimation, which are indicator variables capturing the time periods during and after an SEC investigation, respectively. We estimate positive coefficients on *SEC×During* and *SEC×After* in each regression presented in Panels A and B and these coefficients are significant in all cases except for column 2 Panel A, where the t-statistics fall just below conventional significance levels. In terms of economic magnitude, we generally find larger coefficients in the period after the investigation closes than during the investigation. For example, estimates in Panel B column 2 suggest a 7.0% higher likelihood of forming a new fund 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 Disclosure

Our evidence suggests that SEC investigations have spillover effects on advisers' fundraising activities, yet it remains unclear why we find an increase in advisers' ability to fundraise. To further understand how private fund advisers respond to SEC investigations, we next test H2 to determine whether private fund advisers' disclosure choices change in response to SEC investigations. As previously discussed, we explore the quantity, tone, and content of narrative

disclosures in Form ADV, Part 2 filed with the SEC. Table 4, Panel A presents estimates of Equation 2 with columns 1 and 2 (3 and 4) presenting results for *SentCount* (*Tone*), which represent overall measures of disclosure quantity and tone. We find the quantity of disclosure significantly increases following SEC investigations in column 1. Specifically, we observe a 7.1 percent (exp[0.069] - 1) increase in the number of Part 2 sentences following an SEC investigation. Effects are similar (i.e., not significantly different) in both the period during and after the investigation in column 2.

Turning to our tone analysis, we find a significant negative coefficient on *SEC*×*Post* when examining *Tone* in column 3, which suggests the overall tone of Part 2 filings becomes more negative following the initiation of SEC investigations. Effects are similar in both the period during and after the investigation in column 2. Overall, we find advisers increase the quantity of disclosures and decrease the tone of disclosures during SEC investigations, suggesting disclosure changes to inform LPs or mitigate potential negative outcomes from SEC investigations.

Next, we assess whether advisers change the specific content of Form ADV, Part 2 disclosures following an SEC investigation. Table 4, Panel B presents our analysis of advisers' discussions business ethics (*Ethics*), corporate governance (*CorpGov*), and legal (*Legal*) topics following SEC investigations. We find evidence that advisers increase their discussion in Form ADV, Part 2 of business ethics and legal topics following the SEC investigation (Panel B, columns 1 and 5). We do not find evidence that advisers expand their governance-related disclosures (Panel B, column 3). When separating disclosures during the SEC investigation and after, we that these changes occur both during and after investigations. Taken together, our findings show advisers increase the business ethics and legal language in their disclosures during and following the SEC's investigation. This evidence is consistent with advisers' desire to reassure LPs of their commitment

to ethical practices or to be forthcoming with respect to ethical and legal issues in connection with the SEC investigation, rejecting the null H2.

4.3 Analysis of Governance

We next test H3, analyzing whether advisers change their governance (e.g., Big 4 auditor and internal controls audit choices) following SEC investigations. We explore this hypothesis by estimating Equation 3 using our entropy balanced sample. Results from this analysis are presented in Table 5 with columns 1 and 2 (3 and 4) analyzing the choice to use a Big 4 auditor (obtain an audit over internal controls). Table 5, columns 1 and 3 (2 and 3), use *SEC*×*Post* (*SEC*×*During* and *SEC*×*After*). We find that advisers are 3.1% more likely to use a Big 4 auditor following an SEC investigation This finding suggests advisers respond to an SEC investigation by improving financial reporting quality through stricter auditor oversight (e.g., use of Big 4). This effect concentrates in periods during rather than after investigations (column 2), suggesting an immediate response to investigations.

When analyzing the choice to obtain an audit over the advisers' internal controls, we observe a higher likelihood, specifically a 7.2% increase, of an internal controls audit following an SEC investigation (column 3). We find similar effects both during and after investigations, indicating an immediate and continuing response. This evidence rejects the null hypothesis in H3, 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).

5.4 Channel Analysis

Our results to this point suggest that advisers enhance fundraising, increase disclosure, and improve governance following SEC investigations. We argue that either increasing disclosure or improving governance could lead to better fundraising outcomes to the extent these changes reduce information asymmetry or agency costs between GPs and LPs. We next more formally test the connection between advisers' disclosure and governance changes following SEC investigations and their fundraising outcomes. To do so, we estimate Equation 1 after removing *SEC*×*Post* and splitting it into two groups, represented by two indicator variables for whether a firm increased disclosure or improved governance following an SEC investigation. For disclosure tests, we focus on the variables that are significantly associated with SEC investigations in Table 5 (*SentCount*, *Tone*, *Ethics*, and *Legal*). For each disclosure variable, we construct an indicator equal to 1 if the firm increased the value of the variable (e.g., *IncSentCount*) and another indicator equal to 1 if the firm did not increase the value of the variable (e.g., *NoIncSentCount*). We then interact these indicators with *SEC*×*Post* – splitting this variable into two groups – to test whether the firms that experienced improved fundraising outcomes following SEC investigations are the same firms that increased their disclosure following SEC investigations.

Table 8 presents the results. We find that the positive association between *SEC*×*Post* and new funds is concentrated in firms that increased the quantity of their disclosure (columns 1 through 3), did not increase tone (columns 4 through 6), increased business ethics discussions (columns 7 through 9), and increased legal language (column 10 through 12). Overall, the results provide evidence that the fundraising outcomes following SEC investigations are related to how firms change their quantity, tone, and content of disclosure following SEC investigations. This pattern is consistent with advisers improving disclosure, reducing information asymmetry, and ultimately improving fundraising following SEC investigations.

In untabulated analyses, we also test the governance channel (Big 4 auditor and internal controls audits) using the same approach. We fail to find that the positive association between *SEC×Post* and new funds is concentrated in firms that improve governance, consistent with Gaver et al.'s (2023) evidence that financial reporting governance has little association with PE fundraising.

V. ADDITIONAL ANALYSES

5.1 Analysis by Size and Inside Ownership

To further understand the relation between fundraising activities and SEC investigations, we explore cross-sections based on either adviser size (*LnAUM*) or inside ownership (*OwnedRelated*) and fundraising. Size may reflect advisers available resources, while inside ownership reflects "skin in the game" or higher agency costs due to potentially weaker outside monitoring. For size, we separate advisers into *large* and *small* advisers, based on the median *LnAUM*. For inside ownership, 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*). We re-estimate Equation 1 for each group separately.[13] Table 6, Panel A presents results from the size cross-section, with columns 1 through 3 (4 through 6) displaying results using our three measures of fundraising outcomes for large (small) advisers. Table 6, Panel B presents results from the inside ownership cross-section estimation with columns 1 through 3 (4 through 6) presenting results for advisers with high (low) inside ownership.

We find that the increase in new fund formation and the amount of capital raised following an SEC investigation is concentrated in large (high insider ownership) private fund advisers in Panel A (B, except column 2). The size results suggest larger advisers have more resources

[13] For brevity, we do not report results separately including the period during (*SEC×During*) and after (*SEC×After*) investigation. Results are consistent with those reported, concentrating in larger or high inside ownership advisers.

available to handle SEC investigations (e.g., less distraction; more thorough responses) or because agency costs are higher for large funds. The inside ownership results suggest that oversight by the SEC in the form of investigations has a stronger spillover effect on fundraising when agency costs of the adviser are higher (i.e., higher inside ownership). Overall, results are consistent with SEC investigations reducing agency costs where agency costs are most problematic.

5.3 Analysis by Fund Type

As an additional cross-sectional, we explore whether the relation between fundraising and SEC investigations varies across advisers managing different types of funds. We separate advisers based on whether they advise at least one fund that is a buyout, hedge, venture capital, or real estate fund, based on the adviser's fund types in Form ADV, Part 1. These groups are not mutually exclusive because advisers can manage multiple fund types. Using these subsamples, we estimate Equation 1 separately for each subsample and present the results in Table 7, Panels A (buyout and hedge funds) and B (venture capital and real estate funds). We find evidence suggesting advisers of all types of funds have increased fundraising activities following SEC investigations (i.e., positive coefficient on *SEC*×*Post*), though the results vary in statistical significance. For example, the most consistent evidence of our baseline results occurs fir advisers of hedge funds. Overall, results are consistent with positive effects of SEC investigations on fundraising across fund types.

5.4 Other Robustness Analyses

Throughout our analysis, we employ a difference-in-difference analysis examining fundraising and disclosure-related outcomes after SEC investigations. A key assumption when implementing this empirical design is the parallel trends assumption ensuring no systematic differences in trends 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, and two or more years after the open date of an SEC investigation (*Investigate_1*, *Investigate_2*). The benchmark time period in this estimation is all GP-years four years or more prior to the investigation. As in our main models, we estimate this model using both adviser and year fixed effects.

Table 9 presents results. We observe the parallel trends assumption appears satisfied as evidenced by the insignificant coefficients on *Pre-Investigate_1*, *Pre-Investigate_2*, and *Pre-Investigate_3*. This suggests no differences between investigation and non-investigation advisers prior to an SEC investigation. This supports our baseline empirical design choice of a difference-in-difference methodology. We continue to observe significant increases in fundraising following SEC investigations, with a specific increase in new funds being formed three years and beyond the end of the investigation (column 1). However, we observe a more immediate increase in the number of funds formed (column 2) and the amount of capital raised (column 3) in the first year after the SEC investigation initiation. This provides additional evidence on the timing of fundraising changes following SEC investigations.

One concern with our finding that SEC investigations increase private fund advisers' fundraising activities, disclosure, and governance is that these results could be driven by the SEC's ultimate enforcement action against advisers, rather than advisers' responses to non-public investigations. To assess whether our findings are due to SEC investigations or the actual enforcement of misconduct, we estimate Equation 1 replacing our *SEC×Post* indicator with indicators, *Enforce* and *Non-Enforce*, interacted with *SEC×Post* (i.e., breaking that indicator into 2 groups) 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, but where enforcement actions were not 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

We examine the effect of SEC investigations on the fundraising efforts of private fund investment advisers. We propose that SEC oversight could improve advisers' reporting and governance, facilitating capital formation. However, private fund LPs 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. Mechanism tests suggest that disclosure, rather than governance, improvements drive increased fundraising. 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.

Appendix A

Variable Definitions

Variable	Definition	Source
SEC×Post	An indicator variable equal to 1 if the GP is investigated by the SEC and the year is after the initiation of an investigation by the SEC and 0 otherwise.	FOIA
SEC×During	An indicator variable equal to 1 if the GP is investigated by the SEC and the year is *during* an investigation by the SEC and 0 otherwise.	FOIA
SEC×After	An indicator variable equal to 1 if the GP is investigated by the SEC and the year is *after* an investigation by the SEC and 0 otherwise.	FOIA
NewFund_Ind	An indicator variable equal to 1 if the GP formed at least 1 new fund in year *t*.	ADV Part 1
NewFund_Count	The number of new funds raised in year *t*.	ADV Part 1
NewFund_Value	The natural logarithm of one plus 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* in year *t*.	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* in year *t* 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 assets under management.	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* during year *t.* Fund performance (IRR) is defined as net internal rate of return (IRR %). If the adviser is not covered by Preqin, and therefore has a missing IRR value, we use the average internal rate of return for all GPs in year *t.*	Preqin
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 assets under management.	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 assets under management.	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 assets under management.	ADV Part 1
Distance	The natural logarithm of one plus the number of miles between adviser *i*'s principal office (based on their postal code) and the SEC regional office, 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 audit in year *t* and zero otherwise.	ADV Part 1
SentCount	The natural logarithm of the number of sentences reported in Form ADV, Part 2.	ADV Part 2
Tone	The percentage of sentences classified by the Sentiment FinBERT model as positive minus the percentage of sentences classified by the Sentiment FinBERT model as negative in form ADV part 2.	ADV Part 2
Ethics	The percentage of sentences classified by the ESG FinBERT model as relating to "business ethics" in form ADV part 2.	ADV Part 2
CorpGov	The percentage of sentences classified by the ESG FinBERT model as relating to "corporate governance" in form ADV part 2.	ADV Part 2
Legal	The percentage of words included in the Campbell et al. (2014) legal risk word list in form ADV part 2.	ADV Part 2

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Table 1
Sample Selection

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

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

Table 2
Descriptive Statistics and Univariate Analyses

Panel A: Descriptive Statistics

Variable	Obs	Mean	StdDev	p10	p25	p50	p75	p90
SEC×Post	32,594	0.020	0.141	0.000	0.000	0.000	0.000	0.000
SEC×During	32,594	0.008	0.086	0.000	0.000	0.000	0.000	0.000
SEC×After	32,594	0.013	0.112	0.000	0.000	0.000	0.000	0.000
NewFund_Ind	32,594	0.234	0.424	0.000	0.000	0.000	0.000	1.000
NewFund_Count	32,594	0.708	2.450	0.000	0.000	0.000	0.000	2.000
NewFund_Value	32,594	4.372	7.964	0.000	0.000	0.000	0.000	19.172
SentCount	32,594	5.666	0.503	5.050	5.328	5.638	5.984	6.328
Tone	32,594	-9.094	7.083	-18.966	-13.714	-8.473	-3.687	-0.413
Ethics	32,594	5.147	2.178	2.577	3.521	4.854	6.438	8.122
CorpGov	32,594	18.183	6.785	10.314	13.125	17.122	22.222	27.622
Legal	32,594	0.211	0.151	0.065	0.110	0.178	0.272	0.394
Big4	32,594	0.537	0.474	0.000	0.000	0.777	1.000	1.000
IC	32,594	0.028	0.164	0.000	0.000	0.000	0.000	0.000
LnAUM	32,594	20.643	1.832	18.558	19.341	20.436	21.768	23.131
Age	32,594	1.841	0.789	0.693	1.386	1.946	2.485	2.773
LnOwners	32,594	2.963	1.014	1.609	2.261	2.996	3.679	4.248
Misconduct	32,594	0.128	0.334	0.000	0.000	0.000	0.000	1.000
IRR	32,594	13.453	2.217	13.057	13.058	13.262	13.560	13.918
HF_only	32,594	0.427	0.495	0.000	0.000	0.000	1.000	1.000
BO_only	32,594	0.202	0.401	0.000	0.000	0.000	0.000	1.000
OwnedRelated	32,594	16.931	22.444	0.670	2.000	7.714	22.283	47.678
OwnedFoF	32,594	10.937	17.917	0.000	0.000	1.031	15.413	35.712
OwnedNonUS	32,594	19.464	25.395	0.000	0.000	7.816	31.821	57.049
Distance	32,594	2.681	1.824	0.531	1.589	1.723	4.499	5.460

Panel B: Comparison of New Fund Formation within Investigated Advisers

		NewFund Ind	*NewFund Count*	*NewFund Value*	Obs
Pre investigation	(1)	0.298	1.274	5.702	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***	

Panel C: Comparison of Disclosure within Investigated Advisers

		SentCount	*Tone*	*Ethics*	*CorpGov*	*Legal*	Obs
Pre investigation	(1)	5.849	-9.110	4.732	17.597	0.222	956
During investigation	(2)	6.027	-9.186	4.788	16.728	0.254	245
After investigation	(3)	5.97	-10.662	4.755	17.629	0.254	412
Difference	(2) vs (1)	0.178***	-0.076	0.121***	-0.869*	0.032***	
	(3) vs (1)	0.121***	-1.552***	0.119***	0.032	0.032***	

Panel D: Comparison of Governance within Investigated Advisers

		Big4	*IC*	Obs
Pre investigation	(1)	0.539	0.065	956
During investigation	(2)	0.533	0.12	245
After investigation	(3)	0.591	0.073	412
Difference	(2) vs (1)	-0.006	0.055***	
	(3) vs (1)	0.052*	0.008	

Table 2 (cont'd)

Panel E: Univariate Statistics Pre-Entropy Balancing

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

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

Table 3
Analysis of New Funds after SEC Investigations

Panel A: Unweighted Regressions

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

Table 3 (cont'd)

Panel B: Entropy Balanced Regressions

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

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

Table 4
Analysis of Disclosure after SEC Investigations
Panel A: Analysis of Overall Measures of Disclosure Quantity and Tone

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

Table 4 (cont'd)

Panel B: Analysis of Specific Disclosure Content

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

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

Table 5
Analysis of Auditor and Internal Controls Choice after SEC Investigations

	(1)	(2)	(3)	(4)
DV=	***Big4***	***Big4***	***IC***	***IC***
SEC×Post	0.031*		0.072**	
	(1.662)		(1.969)	
SEC×During		0.052**		0.066*
		(2.234)		(1.801)
SEC×After		-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)
BO 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	Adviser	Adviser	Adviser	Adviser

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

Table 6
Analysis of New Funds after SEC Investigations, by Adviser Size and Insider Ownership

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

	(1)	(2)	(3)	(4)	(5)	(6)
Sample		**Large Advisers**			**Small Advisers**	
DV=	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***
SEC×Post	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)
BO_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	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

Table 6 (cont'd)

Panel B: Cross-Sectional Analysis by Adviser Inside Ownership

	(1)	(2)	(3)	(4)	(5)	(6)
Sample	**High Inside Ownership**			**Low Inside Ownership**		
DV=	***NewFund Ind***	***NewFund Count***	***NewFund Value***	***NewFund Ind***	***NewFund Count***	***NewFund Value***
SEC×Post	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)
BO_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	Adviser	Adviser	Adviser	Adviser	Adviser	Adviser

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

Table 7
Analysis of New Fund Formation after SEC Investigations, by Fund Type

Panel A: Buyout and Hedge Fund Advisers

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

Panel B: Venture Capital and Real Estate Fund Advisers

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

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

Table 8
Analysis of Channels Underlying Changes in Fundraising

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

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

Table 9
Analysis of Parallel Trends Assumption

DV=	(1) *NewFund Ind*	(2) *NewFund Count*	(3) *NewFund Value*
Pre-Investigate_3	0.002	0.414	0.468
	(0.021)	(0.417)	(0.261)
Pre-Investigate_2	0.095	2.283	2.29
	(1.217)	(1.448)	(1.481)
Pre-Investigate_1	0.041	2.682	1.261
	(0.519)	(1.434)	(0.796)
Investigate_1	0.12	2.889*	2.723*
	(1.594)	(1.816)	(1.792)
Investigate_2	0.091	3.571*	2.374
	(1.215)	(1.941)	(1.578)
SEC×After	0.142*	3.535**	3.368**
	(1.925)	(2.113)	(2.249)
Observations	32,594	32,594	32,594
Adjusted R2	0.517	0.714	0.555
Controls	Yes	Yes	Yes
Adviser FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Clustered SE	Adviser	Adviser	Adviser

This table presents regression estimates of fund formation surrounding SEC investigations using the weighted entropy balanced sample. Columns 1, 2, and 3 present results using the dependent variable *NewFund_Ind*, *NewFund_Count*, and *NewFund_Value*, respectively. *NewFund_Ind* is an indicator variable taking the value of one if adviser *i* forms a new fund in year *t*. *NewFund_Count* is the number of new funds formed by adviser *i* in year *t*. *NewFund_Value* is the natural logarithm of the total assets under management for all new funds formed by adviser *i* in year *t*. *Pre-Investigate_3*, *Pre-Investigate_2*, and *Pre-Investigate_1* are indicator variables 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 before the close of the investigation, and zero otherwise. *SEC×After,* is an indicator equal to one for all adviser-years after an SEC's investigation of the adviser is complete and zero otherwise. Appendix A provides variable descriptions. T-statistics are in parentheses with ***, **, * representing statistical significance with p-values being at the 1%, 5%, and 10% levels, respectively.

Table 10
Analysis of SEC Enforcement following Investigation

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

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