



SHARTSIS FRIESE LLP

425 Market Street ♦ Eleventh Floor
San Francisco, California 94105-2496

June 15, 2026

VIA E-MAIL

To Our Investment Adviser Clients and Other Friends:

Re: SEC Raises “Qualified Client” Net Worth Threshold Effective June 29, 2026

The U.S. Securities and Exchange Commission (the “SEC”) has adjusted for inflation the two thresholds used to determine whether a client or investor is a “qualified client” pursuant to Rule 205-3 under the Investment Advisers Act of 1940: (1) the threshold for a client’s assets under management with an investment adviser and (2) the threshold for a client’s net worth. Investment advisers that charge performance-based fees or allocations to investment funds that rely on section 3(c)(1) of the Investment Company Act of 1940 (the “ICA”) or to separate account clients should update their documents and forms to reflect this new threshold.

Currently, Rule 205-3 allows investment advisers to charge a performance-based compensation to a “qualified client,” defined as an individual or entity that:

- Has at least \$1,100,000 in assets managed by the investment adviser; or
- At the time the investment management contract is entered into, either (a) has a net worth (including, for individuals, assets held jointly with a spouse) of more than \$2,200,000 (exclusive of the person’s primary residence) or (b) is a “qualified purchaser” as defined in section 2(a)(51)(A) of the ICA.

Effective as of June 29, 2026, the dollar amount of the assets-under-management test in the first bullet above will increase to \$1,400,000. At the same time, the net-worth test described above in clause (a) of the second bullet will increase to \$2,700,000. While irrelevant for investment funds that rely on ICA section 3(c)(7), these changes will affect separate accounts and investment funds relying on ICA section 3(c)(1) that charge a performance fee (or performance-based allocation or carried interest).

These increased assets-under-management and net-worth requirements will not apply retroactively or to persons that executed separate account agreements or subscription agreements to invest in 3(c)(1) funds before June 29, 2026. If a client’s or investor’s assets under management with an investment adviser exceeded \$1,100,000 or net worth exceeded \$2,200,000 when such person first entered into the applicable agreement, the adviser may charge performance-based fees or allocations on additional capital such person contributes to that account or fund on or after June 29, 2026, even if that client’s or investor’s applicable assets under management do not exceed \$1,400,000 or net worth does not exceed \$2,700,000 at the time of such additional contribution.

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This letter is not intended as specific or complete advice. Please contact one of the Shartsis Frieze attorneys in the [Investment Funds & Advisers Group](#) if you have any questions regarding these updates to “Qualified Client” Net Worth Thresholds.

Previous alerts to our investment advisory clients and friends and publications on other topics relevant to private fund managers, investment advisers and private investment funds can be found at our [News & Insights](#) page.

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