

October 30, 2002

Mr. James Hollis
Chairman
Investment Performance Council
c/o AIMR
P.O. Box 3668
Charlottesville, VI 22093

Ms. Karyn Vincent
Chairman
AIMR – PPS Implementaion
Committee

RE: AIMR-PPS Standards-Wrap Fees

Dear Mr. Hollis and Ms. Vincent,

NWQ is meaningful participant in the development of the separately managed account industry, and we manage a combination of institutional and SMA accounts. We would like to comment on the proposed standards as described at the recent fall MMI meeting in New York.

We believe that the general principals underlying the AIMR-PPS requirements should be supported. There are however, a number of aspects that are not well suited to the SMA industry as it currently functions. We would like to ask for a re-evaluation of several important guidelines.

First, not all SMA programs are operated identically, nor are the managers providing the exact same category of account for each SMA Sponsor firm. The current practice in this industry has been for the Sponsor firm to maintain all records pertaining to their clients for which we as managers act as sub-advisors. Very few investment management firms, we believe, actually “shadow” the accounting kept by those Sponsor firms. The Sponsor firms also keep their information internally so as to protect the integrity of their clients and data. In order to shift to the shadowing requirements as outlined by your proposed standards, the industry would need a longer lead-time in order to establish the transfer of data going forward, and it would be an extraordinarily expensive process to retrieve all of this data looking backward.

Second, AIMR has suggested a presentation of performance which is net of the highest fees included. Since these vary from firm to firm as well as from one individual consultant to another, using the maximum fee would not be reflective of what the average client would experience. Further,

fees which were utilized five years ago may not be reflective of current fee structures more commonly practiced today.

The SMA industry has successfully developed many different portfolio models and are able to customize in accordance to each investor's guidelines and restrictions. In addition, the use of tax efficiency strategies is broadly utilized today. The movement toward multiple investment discipline accounts is another example of adding diversification and value to portfolios and is a marked change from the blend of different investment managers as practiced in the past.

Therefore, there are many style categories and each Sponsor firm offers different products and managers. The SMA program Sponsor creates and operates a program and enters into a contract directly with their clients while the manager's contract directly the Sponsors and not with the clients. Investment managers, on the other hand, manage institutional or other separate portfolios with contracts tying them directly to their client's rather than through an intermediary. In those cases, normally the manager is responsible for every aspect of managing and reporting, whereas in the SMA business the Sponsor firm is responsible for those functions.

Heretofore, the Sponsor's records constitute the client's official records in an SMA program and are kept by the Sponsor firm acting as custodian. Further, managers are obliged to use or rely on the Sponsor technology platforms. There has not yet been an industry standard for electronic record communications. The fee paid by Sponsors to investment managers is often slim as compared with the fees negotiated with institutional clients. The cost of shadow accounting of a Sponsor's entire list of portfolios would be tremendously costly and substantially reduce the profits for managers, particularly if this were done retroactively.

MMI is actively working with both Sponsors and managers to develop SMA industry standards for file formats and electronic data feeds, but that is not broadly implemented at this time. The electronic maintenance and transfer of records moving forward will facilitate greater ease in maintaining time weighted performance for all cash flows on a daily basis as proposed in 2005. However, this may be too short of a period to actually implement such an involved process. Daily time weighting of cash flows versus a mid-month date assumption may be in fact far more burdensome and unnecessary in materiality in the context of SMA's.

We would request that AIMR grandfather practices regarding manager's access to records. We agree with MMI that a period of at least 18 months to adopt whatever final recommendations are made by AIMR would be more reasonable.

Finally, insofar as performance presentation, we would recommend that gross and net performance be shown with equal prominence. This would be consistent with the SEC No Action Letter to AIMR, December 18, 1996, which said that advisors may present both net and gross performance information provided that they do so with equal prominence. We believe that showing Sponsor type and specific performance information should be acceptable provided that it is accompanied by appropriate disclosure to put the performance into the proper context.

As a long-standing members of AIMR, we respectfully ask for your careful consideration of these suggestions.

Sincerely,

James H. Galbreath, CFA
Managing Director
NWQ Investment Management Company

David Stumpt, CFA
Vice-President
NWQ Investment Management Company