

October 24, 2002

Association for Investment Management and Research
P.O. Box 3668
Charlottesville, Virginia 22903

Re: AIMR-PPS Standards – Proposed Wrap Fee Guidance

Ladies and Gentlemen:

We are writing to offer our comments on the proposed Wrap Fee Performance Guidance statement. Neuberger Berman, LLC has long been an enthusiastic supporter of AIMR Performance Presentation endeavors. We are AIMR compliant and our “firm definition” encompasses our institutional, high net worth, separately managed accounts (“wrap fee”) as well as mutual fund businesses. We have had a significant long-term commitment to the separately managed accounts industry and currently participate in over 12 sponsor programs, that combined, exceed \$5 billion in assets under management. We are concerned that some of the proposals, if adopted as indicated, may compromise our ability to continue to claim compliance with the standards. For ease of communication we will comment on each in the order that they are presented, as follows:

Do you support AIMR’s effort to clarify the wrap fee provisions of the AIMR-PPS standards as outlined?

We wholeheartedly support the effort to clarify the wrap fee provisions of the AIMR-PPS. Previously, these guidelines were somewhat brief and open to broad interpretation. As practitioners, we support more specific clarification because it will ultimately be good for the industry and will contribute to a more level playing field.

Do you think the requirements for investment management firms to have access to the underlying records are sufficiently explained and the alternatives available to firms satisfy the requirements are understandable and operable?

While the requirements for investment management firms to have access to the underlying records is sufficiently explained, hence understandable, we do not feel that they are operable. The primary issue that prevents these requirements from being operable is the lack of connectivity among program sponsors and investment advisors. Currently, investment advisors typically gather as much information as the sponsors will release on a monthly basis that can be used to reconstruct the returns collected from the sponsors. However, it is important to note that the amount of information delivered and the delivery mechanisms themselves vary greatly by sponsor, introducing an extremely manual element to the process. In this business, manual often equates to excess cost. Which leads to the topic

of shadow accounting. For many of the same reasons stated above, shadow accounting is not economically viable for most firms.

Ultimately, we would be pleased to see consensus cooperation among the sponsor community, augmented by some sort of collaboration toward an acceptable level of connectivity. This would give the investment advisors a practicable way to ensure that “all data and information necessary to support the firm’s performance presentation and to perform the required calculations be captured and maintained”. In lieu of an open network for information exchange, which clearly will be a time consuming and expensive endeavor, we would ask that AIMR:

- make provisions that all historical information be “grandfathered”.
- provide specific guidelines for shadow accounting and establish minimum standards.
- address the issue of the upcoming cash flow guidelines slated for 2005 that will again produce a possible impediment to a firms claim of compliance unless special provisions are crafted for the separately managed accounts segment.

Once a firm acquires one or more wrap portfolios for management, should the firm be required to include the performance of the actual wrap fee portfolios when presenting performance to prospective wrap fee sponsors and/or clients?

Firms that acquire wrap fee portfolios to manage should without question hold out the returns of these portfolios when illustrating their wrap fee management expertise to prospective clients. Whether it is one or more portfolios that determine the threshold for creating a “wrap only” composite depends on the specific guidelines that the firm follows for composite inclusion and maintenance. Above all, firms should have consistently applied procedures so whether it is one account or five or some critical level of assets under management is of lesser importance.

Is the distinction between pure gross-of-fees, gross-of-fees and net-of-fees performance clear?

Yes.

Do you agree with the proposed treatment for a “double-hit” of transaction expenses (when creating a simulated wrap fee performance record)?

Yes. There is no other way to deal with this issue unless the transactions costs can be specifically identified and thus stripped out.

Do you support the 1 July 2003 effective date of the proposed Guidance Statement for Wrap Fees Performance?

We feel quite strongly that the proposed effective date will be nearly impossible for most firms to comply with. We would ask that the above comments be taken in account and that revised guidelines be issued for further comment. The ultimate effective date should be tied to the adoption date with a minimum window of two years for implementation. We would also suggest that the proposed guidance be prospective only.

Should AIMR consider any other methods for meeting the objectives of clarifying the wrap fee provisions of the AIMR-PPS standards as set forth above?

AIMR should consider working closely with the Money Management Institute. Neuberger Berman is an active participant in MMI and supports their efforts both in the area of performance as well as technology and operations.

We thank you for the opportunity to comment and we would be pleased to participate in any additional forum that AIMR may deem necessary as they seek to put their hands around the complex issue of performance presentation in the separately managed accounts marketplace.

Sincerely,

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