

**SIA Compliance & Legal Division
Seminar 2005**

Morgan Lewis
C O U N S E L O R S A T L A W

Palm Desert, California | April 6, 2005

Investment Advisors II

Joyce L. Kramer - Moderator

Executive Director

Morgan Stanley

Alan J. Herzog

Compliance Counsel

A.G. Edwards & Sons, Inc.

Jonathan Morris

Senior Vice President

Lehman Brothers Inc.

Steven W. Stone

Partner

Morgan, Lewis & Bockius LLP

Business Proposal: New Wrap Product

- “Just a Variation on XYZ’s Program . . .”
- “Standard” Multi Style Portfolio (MSP) or Multi Discipline Account (MSD) . . .
 - We allocate customer assets across asset classes
 - Each asset class managed by a different manager
 - Managers have best execution obligations, but commissions on “trade aways” are passed through
- “In addition, we want to . . .”

Portfolio Management & Admin

- We want to
 - Include Allocations to ETFs, Mutual Funds, and Alternative Investments
 - Restrict Restrictions
 - Give Reps the Ability to Override Customer Scoring
 - Allow Customers to Pay Wrap Fee from Outside IRA Account

Manager Selection

- We Want to
 - Include Affiliated and Unaffiliated Managers (and Serve ERISA Accounts)
 - Include Managers that Send us Brokerage
 - Pay Managers Different Fees
- We Want to Disclaim Responsibility for
 - Manager Due Diligence
 - Third Party Managers
 - Affiliated Managers
 - Conflicts Among Managers & Styles
 - Double concentration
 - Wash sale issues
- We Want to Allow Clients to Retain Bounced Managers

Performance

- We Want to
 - Show How the Performance Would Have Looked Had the Program Been in Effect
 - Show a Long Term Track Record
 - Show Performance of Certain Asset Classes Based on Indices
 - Link Performance of Managers to the Related Performance of their Managed Mutual Funds and Other Accounts
 - Show Track Records for the Whole Pie

Trading

- We Want to
 - Trade as Principal
 - Discourage Trade-Aways
 - Push Best Execution Obligations to the Manager
 - Managers Trading Wrap Accounts At “Back of the Bus”
 - Managers Doing “Net Trades” Away
 - Suppress Trade Confirmations
 - Set up Error Accounts to Net Manager Trade Error Losses and Gains

Pricing & Distribution

- We Want to
 - Show Higher Standard Fees than We Expect to be Negotiated
 - Charge a Deferred Sales Load
 - Pay Representatives a Higher Payout for this Program
 - Sell Through Third Parties
 - CPAs
 - Financial Planners
 - Insurance Agents

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