



THE MONEY MANAGEMENT INSTITUTE

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Current Best Execution, Trading and Investment Opportunity Issues

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Current Best Execution, Trading and Investment Opportunity Issues

- Buyside Challenges of Best Execution in SMA Trading
- Finding The Lesser Evil: Current Solutions In Wrap Trading
- Who Is Responsible for Best Execution in Wrap Trading?
- Challenges For Broker-dealers
- Is Technology The Answer?
- Best Practices In Wrap Trading

Buyside Challenges of Best Execution in SMA Trading

- Broker selection: Is there a choice?
- Who gets disadvantaged, directed or non-directed clients?
- The disclosure of holdings and the risks of front-running
- Agency, cross, and principal transactions
- Investment opportunity issues
- SEC soft-dollar guidance

Finding The Lesser Evil: Current Solutions In Wrap Trading

- Trading Last
- Segregating WRAP Trading
- Rotation
- Stepping Out/Pro-Rata Allocations
- Concurrent Trading
- Other types of tradeaways

Who Is Responsible for Best Execution in Wrap Trading?

- Sponsor
- Portfolio manager
- Both

Challenges For Broker-dealers

- Agency, cross, and principal transaction rules
- Regulation T and “Letters of Free Funds”
- Discretionary trades with exchange members
- Limit-order protection
- Monitoring portfolio manager trading practices
 - Approach to trade allocation

Selecting an SMA Trading Approach

- Trend: Sponsor or other non-Manager Firm takes responsibility for SMA trade placement, with Manager continuing to place trades for its non-SMA accounts (e.g., funds, institutions).
- Trade Rotation vs. Simultaneous Communication
- Factors to Consider:
 - Types of Securities (more liquid, less liquid)
 - Number of SMA Programs/“Trade Placers”
- Possible to Vary Trading Approach by Transaction

Communicating Investment Decisions

- Rotation's disadvantages include information leakage, different treatment of clients (can be mitigated over time by random rotation) and increased administrative burden for managers in more than a few SMA programs.
- Simultaneous Communication's disadvantages include competition in market negatively affecting price, particularly for less liquid securities. Advantages include equal treatment of clients, administrative ease and avoidance of information leakage.
- Simultaneous Communication may not be possible across the board. The possibility of certain clients going 2d, 3d, etc., last and related potential negatives should be disclosed.

SMA Trade Placement

- 95+% of the time, the firm responsible for trade placement has full best execution responsibility, which means the firm may need to trade away from the client's Sponsor Firm in certain circumstances.
- Payment of wrap fees tilts the playing field toward executing trades for clients with their Sponsor Firms, but this tilt is eliminated if another firm is willing to execute the trade without charging a commission or commission equivalent.
- Blocking a trade and placing it with a broker that is not a Sponsor Firm for all or some participating clients avoids the information leakage disadvantage associated with trade rotation and may also improve execution quality.
- In some circumstances, an incremental commission or commission equivalent (embedded in security price) may be consistent with pursuit of best execution.

Compliance Issues

- Disclosure, Disclosure, Disclosure.
- Ongoing monitoring of price/performance differences for separately-traded groups of same-strategy accounts (e.g., SMAs vs. funds and institutions).



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