

December 31, 2004

CFA Institute

CFA Centre for Financial Market Integrity

Reference: Guidance Statement on Wrap Fee/Separately Managed Account Performance

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Department and Committee members:

A.G. Edwards Asset Management welcomes the opportunity to comment on the proposed revisions to the Global Investment Performance Standards (GIPS) Guidance Statement on the calculation and presentation of wrap fee/Separately Managed Account performance. The GIPS objective “to obtain worldwide acceptance of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure” is fully endorsed by A.G. Edwards. A.G. Edwards Asset Management, however, expresses our concern regarding the calculation methodology set forth in the proposal for “gross-of-fees performance” as it pertains to separately managed accounts and the unintended consequence of non-comparable performance. In particular, A.G. Edwards Asset Management believes that this requirement should be revised in order to avoid creating a competitive disadvantage for money managers operating primarily within the Separately Managed Account (SMA) business model.

As detailed in the MMI comment letter dated July 30, 2004, the SMA business model is unique. “The Sponsor creates and operates the SMA program, including having responsibility for due diligence on existing and potential new investment management firms that have been or may be selected to participate in the program, SMA program marketing, executing most or all transactions in listed equity securities for SMAs in their programs, settling all securities transactions into the client’s account, and client reporting on transaction performance. The Managers make day-to-day investment decisions for the SMAs. In virtually all cases, the Sponsor – and not the Manager – enters into a contract directly with an SMA client; the Managers contract directly with the Sponsors, and not with the clients. The contract is generally an all-inclusive fee covering multiple services such as investment management, consulting, brokerage, and custody.” The Manager influences only the management fee as negotiated with the Sponsor. The Sponsor dictates all distribution, trading, custody, and record keeping costs.

The calculation methodology for performance states that gross-of-fee performance must reflect actual trading expenses. If the actual trading expenses cannot be identified, returns must be reduced by the entire bundled fee, or the portion that includes the bundled fee. For managers operating in the SMA business, trading expenses are controlled by the

Sponsor and included in the bundled fee; the manager cannot determine the actual trading expenses. The trading expenses are a relatively small component of the overall bundled-fee, which covers sales, marketing, custody, reporting and other overhead costs. Compliance with GIPS, thus, requires the manager to deduct far more than the actual trading expenses, putting SMA managers at a competitive disadvantage. Such “gross performance figures” are not comparable among managers, particularly between those whose business is entirely in the SMA arena and those whose primary business is outside of the SMA business. This result of non-comparability contradicts one of the prime objectives of GIPS. The proposal thus puts an undue burden on managers operating in the SMA business. A.G. Edwards suggests, therefore, that it would be more appropriate and useful that a pure gross-of-fees performance (that is, before deduction of the unbundled fee) be shown with equal prominence to net-of-fees performance with appropriate disclosure regarding the nature of such information.

For example, many SMA programs have bundled fees as large as 2.75% for small accounts (most have minimum account sizes as low as \$50,000). Management fees to the investment manager (included in that bundled fee) may be approximately 0.50%. The total fee net of management fee, which is 2.25% in this example, consists primarily of costs other than trading costs. In fact, for low turnover managers such as A.G. Edwards Asset Management, it is likely that trading costs are probably the least of the costs bundled in that fee. To report a “gross fee” after that 2.25% fee makes comparison impossible with essentially similar managers whose account base allows them to separate trading costs from distribution and other costs.

A.G. Edwards Asset Management appreciates the opportunity to comment. If you have any questions or want additional information regarding this letter, please contact A.G. Edwards Asset Management at (314) 955-3000.

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