AIM
PRIVATE ASSET
MANAGEMENT™

October 30, 2002

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

Re: AIMR-PPS standards – Wrap Fee Guidance Statement

Ladies and Gentlemen:

AIM Private Asset Management, Inc. (APAM)[1] appreciates the opportunity to comment on the Guidance Statement on Wrap Fee Performance (the "Statement") that the Association for Investment Management and Research (AIMR) recently proposed. While we strongly support the AIMR Performance Presentation Standards (AIMR-PPS) and generally support the need to clarify the applicability of the AIMR-PPS to the separately managed account (SMA) industry, we have several concerns regarding the Statement. In general we concur with the views expressed by the Money Management Institute in its letter regarding the Statement. In addition, we note the following comments and concerns.

As we understand it, AIMR has historically recognized the unique role that consultants play in the selection of investment managers and institutional clients' use of consultants in the investment manager selection process. In the SMA industry, program sponsors and their representatives act as financial consultants to their clients in analyzing and recommending potential investment managers and monitoring and reporting on the performance of the investment manager once selected. Their role in this respect is essentially the same as that of a traditional investment consultant in the institutional

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1 APAM is a registered investment adviser based in Houston, Texas and an indirect subsidiary of A I M Advisors, Inc. ("AIM"). As of September 30, 2002, AIM, together with its subsidiaries, managed or advised over 175 institutional portfolios and over 3100 private accounts with approximately $118 billion in assets under management.

market. Numerous traditional institutional consultants perform a substantially similar consulting role in the SMA industry. These consultants include Callan, SEI and Frank Russell. AIMR has always permitted investment firms claiming AIMR-PPS compliance to deliver to the consultant any information requested by the consultant so long as the performance information was accompanied by an AIMR-PPS compliant presentation and the performance information delivered was within the ethical framework of AIMR-PPS. Under the Statement, it appears AIMR is proposing to require investment firms to follow another set of rules on the type and restriction of usage of performance information delivered to consultants that consult to the SMA industry. We believe there is no need for this difference and the additional burden it places on an investment firm and consultants. The current treatment of consultants under the AIMR-PPS has served investors well for almost ten years. The proposed Guidance Statement, if enacted as proposed, will create a significant burden on both investment managers and consultants in determining what performance information may be used in the selection and monitoring of investment managers. Such usage will be dependent on the whether the consultant review is for an SMA investor or a non-SMA investor, with no requirement to determine the sophistication of the consultant's client.

Therefore, we strongly believe it is critical that the Statement recognize the role of the program sponsor and its representatives as financial consultants and distinguish between this audience and the end client. In particular, non-compliant or certain other supplemental performance information may be required by the program sponsor and is critical in their analysis of the potential investment manager, but may not be appropriate for the end client. The Statement should not explicitly or implicitly prohibit an investment manager from providing such information to program sponsors or their representatives. Under the current AIMR-PPS, once an investment manager has provided performance information presented in compliance with AIMR-PPS, the investment manager is permitted to supply supplemental performance information consistent with the proposed AIMR Guidance Statement on Supplemental Information and AIMR's almost ten years of consistent treatment of performance information delivered to a consultant by a firm claiming AIMR-PPS compliance. This is consistent with AIMR's own guidance to the industry from both its 1993 and 1997 White Books on AIMR-PPS: "No portion of the Standards should be interpreted as inhibiting managers from providing supplemental information requested by prospective clients or consultants.…" Therefore we strongly request that AIMR not treat the information that can be supplied to consultants, including SMA sponsors and their representatives, differently than what AIMR has permitted for almost ten years. In addition, AIMR should not restrict the usage of the investment manager's performance information by consultants, including SMA sponsors and their representatives. As sophisticated consultants, we believe they should be able to determine what information is supplied to their clients and AIMR should not impose on investment managers claiming AIMR-PPS compliance the duty to restrict a consultant's use of performance information. This will harm both the consultants, since they will not be able to share information with their clients, and investment managers, since they will have to monitor the usage of the investment manager's performance, including supplemental performance, by the consultant.

We believe that the Statement should clarify that for composites consisting only of wrap accounts it is still acceptable to calculate a net return by deducting the actual wrap fees paid by the individual accounts. We do not believe it is necessary or appropriate to require that all wrap composites be reduced by the maximum wrap fee if the actual wrap fees paid by accounts can be determined and utilized in the calculation. We note in support of this position that the SEC stated in its no-action letter to Clover Capital Management (October 28, 1986), that investment adviser performance should reflect the deduction of advisory fees that a client would have paid *or actually paid*. We believe the AIMR proposal is contrary to applicable SEC Staff positions on the presentation of investment performance. Furthermore, it also appears contrary to the position presented to the SEC Staff in AIMR's own no-action letter request. (AIMR, SEC No-Action Letter, December 18, 1996.) The SEC Staff permits the use of a model fee under the limited circumstances where: (i) it is unduly burdensome for the investment adviser to report net-of-fees investment performance using actual fees because of the variation of fees charged to the accounts included in the composite performance; and (ii) the model fee used is the highest investment fee paid by the accounts included in the composite. It is clear in the SEC Staff positions that the use of model fees is not to prevent the use of actual fees when presenting net-of-fees performance. The use of a model fee is the exception and limited to the above circumstance. (J.P. Morgan Investment Management, Inc, SEC No-Action Letter, November 27, 1989.) In addition, AIMR in its no-action letter request to the SEC staff and the SEC Staff in its response both specifically limited the use of a model fee *to the non-wrap accounts* included in a composite to be presented to potential wrap-fee clients.

We do not believe it is appropriate for the Guidance Statement to impose on investment firms claiming AIMR-PPS compliance a requirement that is contrary to AIMR's own position as presented to the SEC in AIMR's no-action letter request and inconsistent with long standing SEC Staff positions. Accordingly, we request that the Guidance Statement specifically state that at all times, when presenting the net-of-fees performance of wrap accounts in a composite, actual fees paid by the account are to be used.

Again, we appreciate the opportunity to comment on the Statement and your consideration of our comments. If you have questions regarding our comments, please feel free to contact the undersigned at 713-214-1605.

Sincerely,

Mark McMeans, CFA, CPA
President & Chief Operating Officer