



ALLEGIANCE CAPITAL

December 2, 2004

CFA Institute
CFA Centre for Financial Market Integrity
P.O. Box 3668
Charlottesville, VA 22903

Re: Guidance Statement on Wrap Fee/SMA Performance

To Whom It May Concern:

Allegiance Capital is pleased to comment on the Guidance Statement for Wrap Fee/Separately Managed Account Performance. We understand and support the CFA's efforts to develop guidance for the calculation and presentation of wrap fee/SMA portfolios, and applaud the CFA's decision to 'Grandfather' historical performance. However, we continue to be concerned on several issues and appreciate this opportunity to present our concerns and/or questions as follows:

Grouped Composites:

Under "Performance Presentation", SMA results for prospective clients (or new sponsors) must be grouped together across all the same investment style or strategy, regardless of the SMA sponsor to avoid "cherry picking".

While we understand and support the intent of this guideline, we question the contradictory rationale behind it. We believe that it is an oxymoron to suggest that firms who provide AIMR compliant, Sponsor-specific performance may be "cherry-picking" performance unless their performance is grouped with other Sponsors. If the underlying Investment Manager is managing the same strategy across various sponsors and is compliant with the PPS Standards across all sponsors, it seems reasonable to show a potential client the performance for the product at the firm which he/she is actually considering investing.

As has been shared with the CFA in past Guidance comments by others, many Sponsors contractually control what information Investment Managers are allowed to market with; many insisting on the exclusive use of the numbers they calculate. While our experience shows that investment managers typically do not meet with the potential end wrap fee client, in those rare cases where the Sponsor requests it, Sponsors may preclude Investment Managers from providing a grouped composite. While we applaud the spirit of what the PPS are trying to achieve/avoid, we would suggest that this requirement be reconsidered in light of its inherent contradiction and erroneous assumption that Investment Managers have the leverage to dictate to Sponsors what performance can or cannot be used.

Double Hit of Transactions Fees:

Under “Calculating Gross-of-Fee and Net-of-Fee Returns”, it is stated that all performance must be shown net of actual trading expenses. Or in cases where the trading expense cannot be identified and segregated from a bundled fee, or the portion of the bundled fee, either the entire bundled fee, or the portion of the bundled fee containing the trading expenses, must be included in the gross-of-fees and net-of-fees return.

While it is difficult, if not impossible, to ascertain all the trading fees, if Investment Managers are able to obtain the breakdown of “other” fees which can be clearly identified (e.g. full management fees) from the underlying Sponsor, we question why those fees which can be specifically identified can’t be acknowledged in the disclosure footnotes and incorporated in the gross-of-fee performance results?

Fee Schedules:

The PPS Standards require the disclosure of a “fee schedule that is appropriate to the composite” (Question 2).

In one area of the Guidelines it is stated that prospective clients must be shown a grouped composite for similar investment styles or strategies. In the Guidance Q&A it is stated that prospective clients must be shown the total wrap fee that will be charged by ‘the SMA Sponsor’. Since all Sponsors do not share the same fee schedule this requirement would be virtually impossible to meet, for neither would it be accurate to understate or overstate the fees, or possible to be specific about the exact fees of the respective Sponsor when all Sponsor’s portfolios are required to be lumped together. Referring back to our first statement concerning grouped composites, we believe that if the PPS standards are being employed that more accuracy is achieved for the prospects’ benefit when viewing performance in terms of the actual manager they are considering by using that manager’s specific fee schedule. Also, performance is most frequently shown, not to prospects but to brokers, making the requirement to show them results derived from lumping performance from outside firms illogical.

In response to question number 6, and given that this issue has been hanging for several years without final clarification until now, we would support a later effective date to allow Investment Manager’s an appropriate amount of time for implementation and to work with their many broker dealer relationships to resolve some of the ongoing issues where it is possible to do so.

We are pleased with some of the concessions that have been made to enable more firms to meet compliance and have appreciated this opportunity to review and comment on this second generation of proposed Guidelines.

Respectfully,

Allegiance Capital