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MORRISTOWN, NJ

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Association for Investment Management and Research
Reference: AIMR-PPS standards – Wrap Fees
P.O. Box 3668
Charlottesville, VA 22903
Fax: 804-951-5320
E-mail: standardsetting@aimr.org

In reviewing the Guidance Statement on Wrap Fee Performance currently open for public comment, there were several points we thought it would be worthwhile to bring to the attention of AIMR to help ensure the consequences and implications of the currently worded proposal are more fully understood and appreciated.

There are several passages of the current proposal that gave us moment to pause:

1. "Wrap fee performance must be shown net of the trading expenses as well as the direct and indirect wrap fees paid by the client" and "Gross-of-fees performance is only permitted as supplemental information".

   Ultimately, the goal of GIPS is to help provide a framework for which current and prospective investors are able to evaluate investment alternatives consistently. Having a thorough understanding of total net-of-fees performance is certainly important. However, in this circumstance, requiring wrap fee performance to be shown net of the entire wrap fee may be less applicable for helping an investor evaluate a particular investment strategy than for helping evaluate the expenses associated with wrap fee sponsors, whose fees are beyond the investment manager's control. In this case, it would not necessarily be appropriate to encumber investment management firms with this reporting burden, who may have no systematic way to acquire and reconcile this data.

2. "Firms can present wrap fee sponsors with gross-of-fees performance only for the use of the sponsor,…" and "Firms must make every reasonable effort to be sure that the wrap fee performance shown to prospective wrap fee clients is shown net of the entire wrap fee."

   Consistent with the point above, this seems to require investment management firms to undertake efforts that, by definition, will not provide current clients and prospects with the necessary data to evaluate the investment manager in the context of those fees that were under their direct control. Reporting of performance net of the entire wrap fee would not seem to be an appropriate responsibility to assign to investment managers, particularly when they have no sure way of auditing fees charged by the sponsoring organization. In addition,

the phrasing that requires firms "…make *every* reasonable effort…" (emphasis added), sets a nearly unattainable and unrealistic standard for firms to attempt to achieve in order to maintain claims of compliance with PPS standards. Instead, perhaps requiring that firms "…make a reasonable effort…" is not only more logistically feasible, but also reflective of the operating environment of most wrap fee programs where investment managers may have minimal direct contact with end clients and prospects.

3. "…indirect wrap fees are any other fees charged to the client by the wrap fee sponsor (or the remainder of the wrap fee)."

   In the case of wrap fee sponsors who are independent providers to third-party advisors, there is the potential for this to be interpreted to include any additional advisory fees which may be being applied in addition to the wrap fee sponsor's fee. Such a scenario would be impractical in that investment managers would essentially have to survey all advisors utilizing the wrap fee sponsor's program to determine what, if any, additional fees were being levied.

We thank you for the opportunity to bring these issues and concerns to light.

Best regards,
Brent Considine, CFA
Vice President
Callan Associates, Inc.

cc: Ron Peyton, President & CEO, Callan Associates, Inc.
Eric Davison, Senior Vice President, Callan Associates, Inc.