

October 31, 2002

Association for Investment Management Research
Reference: AIMR-PPS standards-Wrap fees
P.O. Box 3668
Charlottesville, VA 22903

To Whom It May Concern:

We have reviewed the proposed AIMR guidelines for wrap program performance and record keeping. The rapid growth in wrap accounts over the past few years necessitates some conformity regarding performance reporting to dispel confusion among wrap clients and prospects. We believe that these proposed guidelines will be very cumbersome to administer, expensive to implement, and perhaps most importantly, confusing to the wrap client or prospect. After careful review and consideration of the proposed guidelines, we suggest that the following items should be given further consideration and refinement:

Sub advisor Arrangements vs. Wrap Arrangements - There is a distinct difference in the service level requirements between a sub advisor arrangement and a direct client relationship that includes a wrap arrangement with a broker or wrap sponsor. With respect to a direct client relationship, the level of client service is much greater and we maintain all of the appropriate accounting records on our in house systems. A direct relationship allows us to calculate both gross and net performance accurately and easily. This differs significantly with the sub advisor relationship since the level of client service is lower. The wrap sponsor maintains the direct relationship with the client and maintains most of the client information. An investment manager's access to all of the required information in order to prepare performance information is compromised since the information itself resides on multiple systems and resides with multiple sponsors. Sub advisor relationships are contractual between the investment manager and the sponsor with the wrap sponsor assuming most if not all of the client servicing responsibilities. The proposed guidelines do not consider the different servicing arrangements between direct and sub advisor relationships.

Composite - The creation of a composite for all wrap accounts with similar objectives regardless of wrap sponsor is not a feasible option at this time. We have thoroughly researched various software packages that would allow us to integrate data from all of the wrap sponsors with whom we work. Unfortunately, due to the proprietary nature of the wrap sponsor's software packages, integration is not possible at this time.

Consulting Services - The calculation of the full wrap fee in net performance is not reflective of the investment management services that we provide. A portion of the wrap fee includes investment consulting, similar to an institutional account that employs consulting services. In our opinion, the investment consulting fee should not be included in the net performance return of the investment manager. Wrap clients that participate in a sub advisor program receive investment management and trading services as well as asset allocation recommendations and advice which is normally an investment consulting function.

Cost - The cost of implementing the proposed guidelines is cost prohibitive to small firms like us. The required costs to implement such guidelines include systems upgrade, additional personnel, additional administrative and operational burdens as well as implicit costs to our non wrap client base. The costs are exacerbated by the relatively short time frame given for implementation of the proposed guidelines.

Audit vs. Investment Management – We, like most managers that maintain sub advisor relationships have very little if any, influence on wrap sponsors. This proposal would require us to perform an audit function on the wrap sponsor in order to meet the reliance option contained within the guidelines. In addition, we would also need to become intimately knowledgeable and familiar with NASD regulations and/or other agencies that wrap sponsors comply with. This responsibility takes us away from the primary responsibility that clients select and expect us to perform, investment management.

Implementation Date - The guidelines propose a time line that would be nearly impossible for us to meet and I suspect may also be difficult for other investment management firms as well. The proposed guidelines would also require us to consider significant changes to the process that we use to support these wrap programs. Implementation within six months would require a coordinated Herculean effort on the part of the investment manager and the wrap sponsor.

We recognize and are cognizant of the need to create uniformity and consistency in the standards. We would recommend a slower and more logical approach based upon two important considerations. First, as noted, the proposed guidelines would be costly and arduous to implement within the proposed time period. Secondly, we are already responsible for the marketing material wrap sponsors provide to wrap prospects. We review this marketing material on an annual basis and we are satisfied that the wrap sponsors are accurately reflecting both the wrap program and the role of the investment manager. While there is still some confusion regarding wrap programs among prospective clients, it should be noted that wrap sponsors have dramatically improved and will continue to improve the knowledge levels on how these wrap programs operate. These proposed guidelines would necessitate a total and complete overhaul of the process and this will take more time than allotted in the guidelines.

We strongly recommend that AIMR postpone the effective date of these guidelines. We would also recommend that AIMR continue to work more closely with both investment managers and wrap sponsors in order to broaden both the understanding and the inherent difficulties that firms like ourselves will have complying with the proposed wrap guidelines.

Sincerely,

Daniel Lagan, CFA
President