

December 30, 2004

CFA Institute
CFA Centre for Financial Market Integrity
Reference: Guidance Statement on Wrap Fee/SMA Performance
P.O. Box 3668
Charlottesville, VA 22903

To Whom It May Concern:

We have reviewed the proposed CFA Institute and Investment Performance Council's (IPC) Guidance Statement on Wrap Fee/Separately Managed Account Performance Guidelines. Our comments below correspond with the questions as put forth in the comments section of the Guidance Statement.

1. We support the CFA Institute's effort to develop guidance for the calculation and presentation of Wrap Fee/SMA portfolios, with some modifications.
2. No, the ability to meet recordkeeping requirements will be firm specific, based on records supplied by the sponsor. Shadow accounting is cost prohibitive. Managers are limited to data supplied by the sponsor and in most cases have little influence on what information sponsors provide. In our experience, there is no consistent level of record keeping between sponsors and no consistent medium of transmitting the data. The data often lacks the details necessary to create a composite.
3. The double hit of transaction expenses is not a fair representation of manager performance. However the footnote disclosure does mitigate this concern.
4. The proposed adoption date of January 1, 2006 is aggressive given the requirement to combine all programs into one wrap composite.
5. The CFA Institute and the IPC should consider other methods for meeting the objectives of fair representation and full disclosure. Most notably the requirement to include all SMA programs managed in similar format as one composite is not a fair representation. AIMR PPS standards recommend separate SMA and non-SMA composites, even for strategies managed to the same mandate. The difference between SMA programs in trading and administration are as different as those between SMA and non-SMA programs. By forcing the combination of different programs we are combining apples and oranges. The resulting composite is not reflective of any one program and the composite would have no use to sponsors or the end client. Also, SMA programs managed in similar fashions may fall into different categories at each sponsor. For example, a large cap growth manager may be considered "growth at a reasonable price" or "aggressive growth" depending on the sponsor.

As mentioned above, sponsors provide various levels of records and through different mediums. By combining programs, those that provide great detail will be disadvantaged. Also, because of the different fee schedules, performance figures for one program are not representative of any other. Disclosing multiple fee schedules adds no clarity to the investor.

6. We do not agree with the response to application question number 5. Paragraph two of the response states: "That said, one troublesome SMA sponsor would not, in all cases, prevent the firm from claiming GIPS compliance. The firm should consider the records that are available for that SMA program and assess whether the firm can place reliance on the records that are maintained. In many instances, some records are available for all portfolios -regardless of SMA sponsor- such as trading records and summary information. Acknowledging that the level of detail may not be ideal, the firm may be able to determine that the minimal records available are enough to satisfy the GIPS requirements."

This response seems to justify our argument for not combining performance from different sponsors. What constitutes "minimal records"? How many "troublesome" SMA sponsors are too many?

We agree with the Guidance Statement disallowance of cost as an excuse for the attainment of client records. Cost however must be considered in the compilation and maintenance of composites. As called for in the Guidance Statement, we will now be maintaining not just a Wrap composite, but a separate composite for each program within which we operate. In essence, we will be combining uniquely provided information from ten separate sponsors, and subsequently breaking out the information to create another composite to be used as supplemental information. The technological and administrative costs of maintaining so many composites is almost prohibitive and may force us to consider creating a noncompliant subsidiary.

We recognize the need to create uniformity and consistency in the standards. We recommend that the CFA Institute postpone the effective date of these guidelines or allow firms to maintain composites that more accurately reflect performance for each program.

Sincerely,

Daniel A. Lagan, CFA
President