

June 27, 2002

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

Ladies and Gentlemen:

Re: AIMR-PPS Standards – Wrap Fees

I recently attended the discussion meeting held in New York and found it informative. Your goals of doing the right thing for investors while being aware of the industry's technological limitations are admirable and not often easy to reconcile.

I found myself agreeing with one of the gentlemen that spoke up, that the mandate to show wrap fee composite performance on a fully after fee basis should really be re-examined before adding modifications to it. The core founders of Lockwood Financial, who have been together for over a dozen years now, have always maintained that gross performance is a clearer, fairer way to present performance due to the great variations of fee rates any given client does or might experience due to any number of reasons including account size.

In fact, it seems that you concur with that opinion as, if the trading/custody portion of a fee can be segregated, you allow a gross composite return to be utilized. I assume that the main reason for allowing that is to put wrap assets on the same footing as non-wrap assets. Here at Lockwood we have always separated the components of our wrap fee. The maximum clearing fee is 25 basis points but rapidly declines to 10 bp (and even lower) on assets over \$250,000. As you can see, the gentlemen who spoke up at the conference was right; the trading component is approximately one-tenth or less of the entire wrap fee.

Given three facts: that the trading fee component is comparatively small, that you allow institutional accounts to show gross returns and that the administrative challenges of producing accurate net of fee returns on wrap accounts is complex, I strongly urge you to consider alternative methods for calculating and utilizing gross wrap returns (true gross less the trading fee component). It is an easily understood measure that places all managers on an even playing field no matter which programs they are in. The fee impact could easily be made to the client by requiring a maximum fee impact example to accompany it. The challenge in doing this then becomes utilizing an appropriate trading fee rate. Most sponsors have not, and probably could not if they wanted to, calculated or disclosed their trading component fee rate. It seems to me that one could conservatively assume that the maximum trading rate is no more than 15% of any sponsor's maximum wrap fee. Using a standard trading component fee rate, or actual rate if available, to reduce gross wrap returns is an exceedingly easier administrative task than what is currently proposed and, as mentioned, clear to the client and fairer to the manager.

I would happily share some of our fee data with you if you would like to explore this further. And I am available for any further discussions on this topic, of course. I think you have an opportunity here to clearly present performance data to clients AND to not increase the administrative burden of the managers. I hope you can arrive at the same conclusion.

Thank you for your attention.

Cordially,

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Partner

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