

October 25, 2002

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

Re: AIMR-PPS Standards – Wrap Fees

AIMR-PPS Committee:

I recently reviewed the Guidance Statement on Wrap Fee Performance (the “Guidance Statement”) that AIMR recently proposed. In general, I am extremely supportive of the general principles underlying the AIMR—PPS requirements. However, I feel very strongly that the proposed Guidance Statement contains many requirements that, unless modified, will cause grave difficulties for many money managers. Therefore, I am requesting that AIMR re-evaluate the Guidance Statement so that it can be both beneficial to investors and not overly burdensome to Managers that participate in Separately Managed Account (“SMA”) programs.

Let me start by saying that I do support *clarification* of the AIMR—PPS requirements as they relate to SMAs, but do not support the Guidance Statement as it currently stands. My concerns relate mainly to a few issues. In particular:

- Many Managers that participate in SMA programs have difficulties either gaining access to records maintained by SMA program sponsors or maintaining shadow accounts. Furthermore, *Sponsor* firms generally are not, do not seek to, and/or cannot, be in compliance with the AIMR—PPS requirements. These factors, which are completely out of the control of Managers, emphasize the need for AIMR to adopt a more flexible approach to performance presentation requirements relating to SMAs. Accordingly, AIMR should continue to permit certain exceptions and/or exclusions in its presentation requirements, subject to appropriate disclosure. In addition, AIMR should also establish minimum standards with respect to shadow accounting.
- I believe that AIMR should clarify that it is permissible and appropriate, if not required, to show gross and net performance of SMAs with equal prominence. Presently, AIMR’s requirements suggest that net performance must be shown and that gross performance may be presented as supplemental information. I believe that the current approach detracts from the clarity of the presentation in circumstances in which a Manager wishes or believes that it is helpful to show gross performance as well, in order to give potential clients a better informed perspective of the Manager’s performance. Furthermore, I believe that presenting

gross performance as supplemental information is less straightforward and more difficult to understand than a simpler, equal prominence approach. A major part of my rationale for this is because the fees paid by a SMA, which generally are not conveyed to the Manager firm on an account-by-account basis, vary significantly based on the Sponsor firm, account size and other factors. Moreover, relatively few SMAs actually pay the “maximum wrap fee”.

- I also believe that the Effective Date for a revised version of the Guidance Statement should be tied to the date it is adopted. In my opinion, a 1½ year minimum time period would be required to make all of the changes that will likely be needed for Managers who wish to comply with the Guidance Statement.

As I mentioned at the beginning of this letter, I am extremely supportive of the general principles underlying the AIMR—PPS requirements. My fear is that if the Guidance Statement goes unchanged, it will make Manager firms choose between bearing significant cost to maintain, or become, AIMR—PPS compliant, and foregoing such status due to an inability to comply with the AIMR—PPS requirements for reasons beyond the Manager’s control. My belief is that most managers will choose the latter, which could ultimately result in the abandonment of AIMR-PPS standards across the industry. As a result, I am requesting that AIMR reconsider and revise the Guidance Statement.

Very truly yours,

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