

October 25, 2002

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

Gentlemen:

I am writing to comment on the *Guidance Statement on Wrap Fee Performance*. While I applaud AIMR for devoting attention to this important segment of the asset management industry, I have a number of specific concerns about the proposed guidelines. I doubt that no one is against establishing guidelines but as written, the proposed guidelines do more harm than good, for the industry, for the clients, and prospective clients. Specifically, my concerns include:

- It is cost prohibitive and logistically impossible to track all the WRAP accounts we manage:

We have been managing wrap separate accounts at Harris Bretall since 1988. We currently have relationships with a large number of sponsors. With more than 10,000 accounts it would be very difficult and cost prohibitive to shadow all these accounts on our in-house portfolio accounting system. Furthermore, it would be virtually impossible to go back and obtain historical data on the accounts we have managed.

- A representative sub-composite for each system is much more practical and just as informative.

Rather than requiring that all accounts be tracked, the new standards should permit managers to show sub-composites of the accounts managed at a particular program sponsor in marketing materials tailored to that particular sponsor's program. This would eliminate confusion that could arise if the manager's materials showed different returns (i.e. the manager's complete wrap composite) than the sponsor's materials (the composite of the manager's accounts in that program).

- The standards should allow for use of an institutional composite linked to a wrap composite once a firm starts to manage wrap accounts, provided that this is adequately disclosed.
- In more general terms I think it is important to recognize the differences in the way that separate account programs operate and are marketed.

Inclusion of more industry participants in the guideline development process would certainly help. One issue that illustrates this is the treatment of fees. The application of fees to come up with net performance numbers presents several problems/issues. First, the methodology for adding back transaction fees is complex and involves an onerous operational process.

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Essentially this would mean that many managers would have to overstate the impact of fees. On top of this, more fees are applied to reach the net of fees numbers for wrap fee accounts than for traditional institutional accounts. For example, fees covering consulting services, custodial and administrative fees would always be included in wrap fee composites but often not in institutional composites. Wrap fee accounts bundle a number of services that are typically provided by multiple service providers into one fee. Forcing wrap composites to include all fees while institutional composites only include some would create an apples to oranges comparison that would be misleading to prospective clients. Financial advisors, consultants and brokers all compete for institutional and high net worth and institutional business and systematically presenting one pricing mechanism in a less favorable and biased manner does a disservice to all participants in this process, including, most importantly, the client.

- Given the degree of revisions that will be necessary to make these guidelines practical, and the effort involved for existing wrap fee managers to comply, July 1, 2003 seems overly optimistic for an effective date.

In conclusion I would like to reiterate my support for developing guidelines tailored to address issues specific to wrap fee accounts. I am, however, against the adoption of these guidelines as currently written as I believe they are not practical to implement and are counterproductive to the end users of performance data, clients and prospective clients. I would encourage the inclusion of more representatives from wrap fee managers and program sponsors to ensure that the issues surrounding these types of accounts and a realistic understanding of the nature of separately managed accounts are reflected in the guidelines.

Thank you for the opportunity to comment on these guidelines.

Sincerely,

Henry B. Dunlap Smith, CFA  
President, Chief Investment Officer

Cc. Christopher Davis  
The Money Management Institute