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**John Hancock Private Client Group**

**John Hancock Advisers, LLC**

**Sovereign Asset Management Corporation**

**Legal Department**



Theresa Apruzzese  
Senior Attorney and Assistant Secretary

October 31, 2002

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

Re: AIMR-PPS Standards – Wrap Fees

To Whom It May Concern:

We have reviewed the Proposed Guidance Statement on Wrap Fee Performance and submit the following comments in an attempt to help clarify the intricacies and overall relationship between wrap sponsors and participating investment managers of wrap programs. Specifically, we wanted to draw the Association's attention to the following:

1. The definition of wrap fee portfolios does not address those circumstances in which customers pay a single fee to a broker/dealer for custody and transaction costs but also pay a separate fee and have a separate contract with the investment manager. These 'programs' are often referred to as '2 doc programs' or 'unbundled wraps' due to the fact that fees are wrapped only on the broker dealer side of the equation and not on the investment management side. Since transaction costs cannot be separated from custody costs in these circumstances we recommend that accounts falling within this type of 'program' be brought squarely within the definition of wrap fee portfolios in the Guidance Statement.
2. The Statement does not address the situation in which customers are charged an extra ticket charge to liquidate a portfolio when switching from one investment manager in a wrap program to another investment manager within the same wrap program. Arguably the account belongs to neither the outgoing nor incoming investment manager. To complicate this situation even further, Investment Managers are not always informed of these charges since they do not implement or enforce them. Should these charges be reflected at all and if so by whom? We would argue that during this transition period the charges belong to neither the outgoing nor the incoming investment manager. In this case, neither investment manager controls these costs and they occur without their intervention.
3. Throughout the Guidance Statement but first noted in the "Definition of Firm" and "Underlying Records" sections it is clear that the Association views it as the investment manager's responsibility to make sure the performance provided by wrap sponsors to customers and prospective customers meets the requirements of the Standards. This assignation of responsibility does not reflect the relationship between wrap sponsors and investment managers participating in wrap programs. Participating investment managers are not in a position to and cannot dictate contract terms to wrap sponsors regarding the specific performance advertising they will provide to customers and

prospective customers. In fact, wrap sponsors view their relationship with customers and prospective customers as proprietary. Wrap sponsors, in all cases, facilitate the relationship between Investment managers and customers and prospective customers. After customers leave a wrap program, investment managers are often prevented from speaking with these former customers due to non-compete/non-solicitation clauses within the wrap contract that average two (2) years in length.

We concede that investment managers are responsible for ensuring that all performance information they provide which they have compiled complies with the Standards; however, investment managers cannot be held accountable or responsible once they release this compliant information to a third party such as a wrap sponsor. This, of course, presupposes that wrap sponsors are obtaining the performance information they use in their advertising from investment managers rather than from their own records. It is more likely that wrap sponsors are themselves generating a composite for each investment manager's strategy offered within the wrap program without intervention from the investment manager. Therefore, it is our recommendation that investment managers not be held responsible for insuring the performance presentations delivered by wrap sponsors and that all references regarding the proper use of performance presentations once delivered to wrap sponsors from investment managers be removed.

4. Also, throughout the Guidance Statement but first noted in the "Underlying Records" section the Association characterizes the investment manager as having outsourced its marketing and performance reporting functions to wrap sponsors. This also misconstrues the relationship between wrap sponsor and investment manager. Characterizing these functions as having been outsourced implies that investment managers are paying wrap sponsors to perform these services under the terms of a servicing contract which has been negotiated between the parties. In fact, the relationship is reversed. Wrap sponsors are outsourcing their investment decision-making responsibilities to the investment managers who participate in their wrap program. Therefore, all further guidance which flows from this characterization throughout the Guidance Statement is misleading. We believe that this characterization and the responsibilities assigned to investment managers which flow from it should be removed from the Guidance Statement in its entirety.
5. In the "Establishing an Initial Wrap Fee Track Record" section, the Association states that firms may simulate a wrap fee performance history by deducting from the gross performance history of a non-wrap composite the highest total wrap fee charged by a wrap fee sponsor. The Association admits that this will result in a double hit of transaction expenses being deducted to arrive at the simulated net-of-fees wrap composite. The Association also states that unless the firm is able to determine the actual transaction expenses and deduct them from the performance record no adjustment can be made to avoid this double counting of transaction expenses. Given this unfortunate circumstance we recommend that firms be allowed, in this situation, to disclose that transaction fees have been deducted twice to arrive at the simulated net-of-fees performance history.
6. Also in the section entitled "Establishing an Initial Wrap Fee Track Record" and in case study 5 "AAA Asset Management," the Association states that a firm which simulates a wrap fee composite with a non-wrap fee composite must discontinue this practice once they have more than one wrap fee portfolio under management by redefining the composite prospectively to include only wrap fee portfolios or by discontinuing the simulated wrap fee composite and creating a new wrap fee only composite or by combining wrap and non-wrap fee portfolios into a single composite. If the firm chooses to discontinue the simulated wrap fee composite and create a new wrap fee only composite, the firm would be allowed to show the simulated wrap fee composite below the new actual wrap fee composite as supplemental information. Due to the lack of definitive guidance overall on the presentation of supplemental information, we would encourage more definitive guidance in this area specifically regarding how to use/show the simulated wrap fee composite as supplemental information along with disclosures the Association feels would be appropriate to explain the difference to the reader. When addressing this area in particular we would like the Association to consider the

problems associated with the use of supplemental information in the context of wrap sponsor questionnaires which must be answered by participating and prospective investment manager participants in wrap programs but which do not allow for the disclosure of supplemental information.

7. A third point in the section entitled "Establishing an Initial Wrap Fee Track Record" we would like the Association to clarify is whether a firm can adjust a non-wrap fee composite to simulate a wrap fee composite or must adjust a non-wrap fee composite to simulate a wrap fee composite when presenting a strategy's composite to a prospective wrap fee sponsor. In other words, may an investment manager which does not have any wrap accounts in a particular strategy show a non-wrap fee composite to a prospective wrap sponsor without adjusting the composite to make it a simulated wrap fee composite?
8. Our concerns in the section entitled "Presenting Wrap Fee Performance" are embodied in numbers three and four above. Hence, this section should be reworked in total in light of the typical relationship between investment managers and wrap sponsors as described in those sections.

Overall, we support the Association's attempt to clarify the wrap fee provisions of the Standards. However, we are very concerned that the mischaracterization of the relationship between investment managers and wrap sponsors will lead to incorrect assumptions regarding the operational and functional relationship between the two which will then in turn lead to a Guidance Statement which does not clarify but instead confuses firms overall. In addition, since the issues raised by this Guidance Statement require careful thought and analysis by all firms we would recommend that it not take effect until one (1) year after its terms are finalized. It is imperative for all firms to carefully consider and weigh all options available to them and time will be a critical element of this process.

We appreciate the opportunity to comment on this Guidance Statement and thank you for your careful consideration of the points we have raised.

Sincerely,

*Theresa Apruzzese*