

October 31, 2002

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

Dear Sir or Madam:

This letter is intended to comment on the Guidance Statement on Wrap Fee Performance, which will supplement the provisions of the AIMR-PPS standards, the U.S. and Canadian version of GIPS. While I welcome the additional guidance on composite creation for wrap fee accounts, please note my comments related to the specific topics listed below:

- Creation of initial wrap composite track record
- Linking of initial track record to actual wrap composite track record
- Wrap fee performance presentation
- Presentation of gross and net of fees with equal prominence

Creation of initial wrap composite track record

The proposed guidance states:

“When adjusting the gross of fees (non-wrap fee) composite history to create wrap fee performance, the firm must reduce the performance by the highest total wrap fee charged to the client (end user) by the wrap fee sponsor for the new product, resulting in net-of-fees performance.”

According to the *Guidance Statement on Composite Definition* firms must not redefine a composite after it has been created on a retroactive basis. Keeping that premise in mind, investment managers face a dilemma when creating their initial wrap composite track record that will be used to market their services to multiple wrap fee sponsors over time. The highest total fee charged by wrap fee sponsors varies, creating a situation whereby the net of fees composite return created based on the highest total wrap fee charged by the sponsor marketed to originally could be less than the highest fee of a subsequent wrap fee sponsor. Utilization of the original composite with the subsequent wrap fee sponsor would be in violation of the guidance statement.

Linking of initial track record to actual wrap composite track record

The guidance states that the investment management firm has the option to:

“Redefine the composite to include only wrap fee portfolios going forward (which would result in the percentage of non-wrap fee portfolios included in the composite equaling zero.)”

My interpretation of this passage is that linking the initial track record created before separately managed accounts with a new composite comprised solely of separately managed accounts managed in the same style is allowed. However, this should be stated more clearly in the guidance.

Wrap fee performance presentation

The guidance specifically states that

“The sponsor will provide the performance results supplied by the investment management firm to wrap fee prospects.”

Ultimate marketing of performance results to prospective clients (end users) that occurs by the wrap sponsor is beyond the control of the investment management firm. While it is logical to require investment management firms to provide the sponsor with returns that AIMR considers appropriate for prospective clients, it should be recognized that the investment management firm can not be held responsible for the presentation of these returns by wrap fee sponsors to prospective clients.

Presentation of gross and net of fees with equal prominence

Because net of fees performance will be calculated based on the highest possible SMA fee schedule and most clients do not pay the maximum fee, the gross of fees return is as or more important than the net of fees return. The ability to present gross of fees performance with equal prominence rather than as supplemental information addresses this concern.

Thank you for providing this opportunity to comment on the Guidance Statement. If you have any questions or require additional information, please call me at (312) 364-8140 or e-mail me at nsk@wmblair.com.

Sincerely,

Nancy S. Kimble, CFA
Manager, Administrative Services