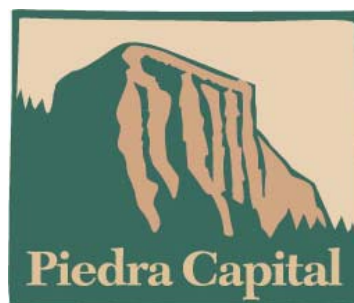


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October 31, 2002

Association for Investment Management and Research
PO Box 3668
Charlottesville, VA 22903

Re: **AIMR-PPS Standards – Wrap Fees**

To Whom It May Concern:

In response to your request for comments on the above-referenced topic, we offer the following:

We support AIMR's underlying principles of fair representation and full disclosure. However, we believe the Proposed Guidance Statement on Wrap Fee Performance displays a lack of understanding of the contractual relationships between wrap fee sponsors (sponsor) and investment managers (manager).

CONTRACTUAL ISSUES

In most wrap programs, the manager does not have a *direct* contractual agreement with the client but instead signs, as a third party, the sponsor's agreement with the client. In this circumstance, there is also a separate agreement between the sponsor and the manager in which the manager is retained by the sponsor to provide investment management services to the sponsor's clients for a specified fee. This fee is a part of the total fee charged to the client by the sponsor.

All reporting responsibilities (including performance) to the clients are reserved to the sponsor. The fees charged by the sponsor to its clients are not disclosed to the manager.

In essence, the manager in a wrap fee arrangement is acting as a "sub-contractor" to the sponsor and, therefore, the scope of the manager's responsibility and authority is limited by the terms of the agreement between the manager and the sponsor. The proposed guidelines seem to place the manager in the position of auditor or regulator when the wrap agreements themselves preclude such authority.

OPTIONS FOR COMPLYING WITH PROPOSED GUIDANCE STATEMENT

The only way to ensure AIMR compliance is to assume the control of the performance measurement and composite creation process. Shadow accounting is the only option that provides such control. The cost of shadow-accounting to comply with the proposed guidelines would create a barrier to entry into wrap programs by all but larger firms that could "afford" the associated increased costs and reduced profits from the 35-45 bps offered by sponsors to managers for their management services.

While the option of relying on sponsor-provided data would likely be more cost effective, it creates substantial risks to the manager's AIMR compliance. The proposed standards require that the manager ensure that the performance provided by the Sponsor meets the requirements of the AIMR standards. The manager is responsible for developing reasonable and **consistently applied** guidelines for creating composites. The manager has no control over the following composite creation practices employed by sponsors.

- Account inclusion guidelines
- Account termination guidelines
- Guidelines for "switching" accounts between composites
- Applying consistent policies regarding levels of manager discretion (sponsor typically consolidates all client accounts in one composite)
- Treatment of Cash Flows
- Valuation frequency
- Trade date or settlement date valuations
- Use of cash or accrual accounting methods
- Calculation methodologies

Relying on sponsor provided performance data and including such data in composites with other sponsor accounts would distort performance and diminish the quality of the performance composite.

As stated previously, the contractual arrangement between the sponsor and the manager precludes the manager from dictating to the sponsor what methods and practices to utilize in calculating their performance and creating their composites.

REPORTING TO CLIENTS

The AIMR standards have always required that managers present net-of-fees performance to prospective wrap fee prospects. Since many sponsors assume the marketing role, and in many instances actually provide **all** client contact, many managers do not publish or market the returns of their wrap fee composites. We therefore suggest that it is unreasonable to compel managers to duplicate the efforts of the sponsor or to force the sponsor to use manager-calculated performance data.

REPORTING TO WRAP FEE SPONSORS

The purpose of doing due diligence is to assess the value of the manager's skill. Sponsors will request data that will facilitate an accurate and objective evaluation. There is little, if any, opportunity to supply data other than the data that they request. Often, due diligence questionnaires are in electronic format that does not allow for any disclosures at all, including the methodology regarding the fee calculations.

Each sponsor has its own fee structure with different levels of "negotiation" granted to its financial consultants. Due to the differences in fees charged, the requirement that managers group wrap fee portfolios into a composite according to investment style or strategy regardless of sponsor would create an "apples to oranges" type of comparison that would actually hinder the due diligence efforts of sponsors, and ultimately their communications with clients.

As an example, a sponsor is conducting due diligence on two managers. Manager A is involved in two wrap programs, where the known maximum fee charged is 2%. Manager B is involved in several wrap programs, and is not certain of the fees charged, so Manager B applies a 3% maximum fee. In order to level the playing field, the sponsor would have to back out the fees to arrive at an "apples to apples" comparison, or gross-of-fees comparison. This example does not address the complications involved when evaluating the performance of managers with multiple fee schedules.

Additionally, dispersion of portfolio returns in a wrap, net-of-fee composite would be distorted by variance of fees charged by sponsors to clients. The purpose of the presentation of dispersion is to measure and assess the consistency of the firm's composite performance results with respect to the individual portfolio returns within the composite. Again, the fee negotiation is strictly between the client and the sponsor and should not be included in measures of dispersion, as it does not reflect the efficacy of the manager.

In order to facilitate an "apples to apples" comparison, a better option might be to determine and state an industry-wide **model fee** to be used by **all** managers to calculate net of fees performance for wrap accounts **or** utilize gross-of-fees reporting to sponsors.

SUMMARY

We agree that prospective wrap fee clients should be made aware of the impact of wrap fees on performance, but we believe the onus should be put on the sponsors and not the managers. We understand that sponsors cannot be AIMR compliant; however, we believe that this issue should be addressed by the regulatory bodies that govern the sponsors.

We believe the Proposed Guidance Statement places the manager and sponsor in an adversarial relationship by disrupting the sponsor due diligence process and placing managers in the awkward position of mandating to the sponsor how to present and evaluate manager performance.

The service to clients that is offered by wrap programs could be diminished by the lack of participation by managers unable or unwilling to bear the increased costs of participation. The AIMR Standards are created for the ultimate benefit of the client, and the client benefits from **increased** participation and competition by investment managers. The largest managers are not necessarily the best.

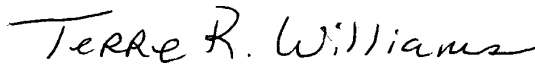
We suggest that the Implementation Committee have broader representation at all levels from both the investment manager and wrap fee sponsor communities. We further suggest that the proposed implementation date (July 1, 2003) is unrealistic. Managers and sponsors will require time to carefully weigh their options and implement any changes necessitated by the finalization of the Guidelines.

We thank you for the opportunity to comment and appreciate your consideration.

Sincerely,



Beverly A. Jones
Compliance Officer



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