

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

October 31, 2002

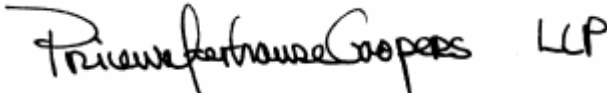
Dear Sir/Madam:

**Proposed Guidance Statement on Wrap Fee Performance**

PricewaterhouseCoopers wishes to thank the Association for Investment Management and Research for this opportunity to comment on the Proposed Guidance Statement on Wrap Fee Performance. Our comments are provided in the attached appendix. This issue of calculating and presenting Wrap fee performance is an area of increasing importance and we welcome the guidance proposed by the Interpretations Subcommittee of the Investment Performance Council.

Thank you in advance for your consideration. We would be happy to discuss our comments with you.

Sincerely,



PricewaterhouseCoopers

## **Appendix: PwC Comments on the Proposed Guidance Statement on Wrap Fee Performance**

We support the plans to provide clarification on the various methodologies for calculating and presenting wrap fee performance results. We have the following comments to make with respect to the draft guidance.

### Guiding Principles

Within the *Guiding Principles* section, the third bullet point which states “Firms that manage existing wrap fee portfolios must present actual wrap fee performance to prospective wrap fee sponsors and/or clients (when appropriate) instead of attempting to simulate a wrap fee performance return using gross-of-fees performance results for non-wrap fee portfolios reduced by an estimated wrap fee” is inconsistent with the guidance that follows. The guidance under the section *Definition of Firm, I Define The Entire Organization As The Firm*, allows firms to use historical, non-wrap fee, adjusted, gross-of-fees performance history in order to simulate a wrap fee composite history. Furthermore, within the section *Establishing An Initial Wrap Fee Track Record*, the Guidance Statement offers a compliant firm three options when the Firm is considering revising its wrap fee composite history as it accumulates an actual wrap fee performance record. One of the options is to continue to combine the ongoing performance of the non-wrap portfolios and wrap fee portfolios. Therefore, the third guiding principle statement should be redrafted in order to be more reflective of the guidance that follows.

### Underlying Records

AIMR should give recognition to the dramatic differences in a wrap product/indirect business offering vs. a traditional institutional high net worth/institutional direct relationship and permit firms to simply split their firms for compliance purposes—without having to meet a divisional test. Otherwise, verifiers are put in an awkward position of subjectively determining when a division exists and when it does not. Additionally, there is not much guidance on how to make a determination as to what constitutes enough functional separation within an investment management firm to qualify as a division. Issues with documentation and/or sponsor certification are a real problem for a number of organizations that are seeking compliance but cannot due to the aforementioned issues.

### Establishing An Initial Wrap Fee Track Record

Under the section *Establishing An Initial Wrap Fee Track Record*, the guidance states “Once the firm includes non-wrap fee portfolios in the wrap fee composite history, the firm must not retroactively strip those portfolios out of the composite in order to create a “Only Wrap Fee” composite history. Please clarify what is meant. It would be helpful to provide examples.

### Presenting Wrap Fee Performance

Under the section *Presenting Wrap Fee Performance*, the guidance states “Additionally, firms can present wrap fee sponsors with a “partial net-of-fees” return that is only reduced by the direct portion of the wrap fee (the firm’s portion), provided that the performance is clearly labelled to reflect the fees deducted (or not deducted)...” Is the partial net-of-fees information referred to above considered Supplemental Information and therefore marked as such? Please clarify. Additionally, the statement “ Firms must make every reasonable effort to be sure that the wrap fee performance shown to prospective wrap fee clients is shown net of the entire wrap fee” will be difficult to enforce.

Within the section *Presenting Wrap Fee Performance*, under the subsection *Reporting to Non-Wrap Fee Prospective Clients*, please clarify the following sentence: “If transactions costs are not determinable (which is generally the case), a firm must use the net-of-fees returns for calculating the composite gross-of-fees return.” This sentence is unclear and should be redrafted.

### Other Comment

The Guidance Statement should address the issue of presenting a measure of dispersion when a firm has a number of sponsor relationships with differing record keeping arrangements (i.e., shadow accounting for some sponsors; reliance on performance calculations for other sponsors). It is often challenging for Firms to meet the requirement of presenting a measure of dispersion that would be meaningful and representative, especially in situations where sponsors report all information as one account.