

October 31, 2002

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

Reference: AIMR-PPS Standards – Wrap Fees

To Whom It May Concern:

In reviewing the proposed guidelines for Wrap Fee accounts, our primary concern relates to our understanding of the relationship between the Investment Management (IM) Firms and the Wrap Fee Sponsors versus those presented/implied in the guidelines. While the roles do vary somewhat in different wrap fee programs, generally the communication (performance) from the IM Firms is directly to the sponsor and the wrap sponsor's communication (performance and marketing) is to their clients and prospective clients. The IM Firms are effectively employed by the wrap sponsors and told what they can and cannot do.

It appears throughout the guidelines that the IM Firm is being held responsible for the use of the performance composites once they have been provided to the wrap sponsors. For example:

P. 6 Define the Entire Organization as the Firm

“The firm must be sure that the performance provided by the wrap fee sponsor meets the requirements of the Standards or the firm must maintain separate/duplicate records at the firm level which meet the requirements of the Standards.”

Comment: The IM Firms can maintain and provide to the wrap sponsors the composites required by the Standards, but to imply the IM Firms “*must be sure*” that the performance provided by the sponsor to the prospective clients meets those standards is beyond the scope and control of the IM Firms.

P. 7 Underlying Records

“Because the investment management firm has outsourced the marketing and performance reporting functions to the wrap sponsor ...”

Comment: We see the more typical relationship that the wrap sponsor firms provide the marketing and performance to their clients and prospective clients and

that they outsource the investment management function. The investment management firms are included at the request of the sponsors, not the other way around.

“The investment management firm is ultimately responsible for its claim of compliance and is responsible for reporting compliant information to prospective clients.”

Comment: Once again, in a typical wrap program, the sponsor, not the investment manager, controls the communication to the clients and prospective clients. This would be more accurate if the last three words were changed from “to prospective clients” to “wrap fee sponsors.”

One of the primary reasons for wrap programs is that the wrap sponsor’s representatives hold themselves out as consultants to their clients. They make an independent presentation to their clients be it with performance attribution; peer group evaluation; or index comparison, which is one reason they control the communication process with their clients and not the IM Firm.

P. 10 Presenting to Prospective Wrap Fee Sponsors or Prospective Clients

“In order to facilitate the comparability of performance results and prevent firms from cherry-picking their best performing portfolios for inclusion, investment management firms must group wrap fee portfolios in a composite according to the same investment style or strategy, regardless of the sponsor.”

Comment: Following the guidelines would appear to have limited value and could provide misleading information to prospective wrap sponsoring firms and prospective clients.

- 1) It is possible a prospective wrap sponsor would, when considering the use of an IM Firm in their program, use the “gross” numbers generated by a composite of several wrap clients of an IM Firm, assuming the IM Firm was in a wrap program. But it would be unlikely they would use “net” numbers because of the wide variety of discounting in the various wrap fee programs.
- 2) It is also difficult to imagine that a wrap sponsor would use anything but a composite of their wrap clients from the investment manager, not the investment manager’s all inclusive wrap composite.

In summary, we feel it is essential to distinguish the responsibilities and control of the IM Firms and the Wrap Fee Sponsors. IM Firms can comply with the Standards (assuming

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they claim AIMR compliance) but they cannot control how the Wrap Fee Sponsor utilizes that performance information. We would suggest a further examination of that relationship prior to implementation of these guidelines.

Sincerely,

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