ACA COMPLIANCE GROUP
PERFORMANCE SERVICES

January 22, 2018

NCREIF
Attn: Director, Reporting Standards
200 East Randolph Drive
Suite 5135
Chicago, IL 60601

Dear Sir or Madam:

Thank you for allowing us to comment on the proposed changes to time-weighted return and related disclosure requirements for closed-end funds (the "Exposure Draft"). We would like to offer the following responses to the questions posed within the Exposure Draft:

<u>Summary:</u>
In general, we support the proposed change to the existing requirement for firms to provide time-weighted returns ("TWRs") for closed-end investment vehicles within marketing materials. While both TWRs and internal rates of return ("IRRs") have historically been required by both the NCREIF PREA Reporting Standards (the "Reporting Standards") and the Global Investment Performance Standards ("GIPS®") for closed-end real estate funds, we believe there is room for flexibility in determining the most relevant performance statistics.

IRRs are generally accepted as the most relevant performance metric for closed-end real estate structures based on the illiquid nature of assets typically held within closed-end funds as well as the investment manager's ability to control the timing and amount of cash flows. However, it is also important to provide transparency around how the information is compiled and presented. TWRs allow for a greater review of risk measures across time, as well as better comparability of returns between managers. Additionally, investors may find TWRs necessary to allow for a comparison of their closed-end real estate investment performance with other asset classes within their overall investment portfolio.

One observation is that there is the potential for increased investor demand for TWRs as alternative investments are included in more investors' asset mixes, and in larger proportions. Relaxing the Reporting Standards' requirement does not mean that managers will not need to continue to calculate TWRs, or at least have the ability to do so. While it is stated that the proposed change may result in more groups reporting to NCREIF, the external appraisal requirement will still keep some groups away.

<u>Questions posed within the Exposure Draft:</u>

Question 1a: Do you agree that the Reporting Standards should change the requirement to the two requirements shown above?

Yes. This is a good compromise between the investment managers that may not find TWRs meaningful and the investors that may be looking for comparability of the returns across managers. However, we request further clarification as what "When reported" means—is this when the investment manager is reporting performance in a marketing presentation on a quarterly basis or is this when reporting performance to the underlying investors?

Question 1b: If you answered yes to Question 1a, please indicate how you think TWR should be distributed.

Investment managers should distribute TWRs to only those investors who specifically accept the offer made by the manager to provide TWRs. It would be unnecessary to distribute this information to all investors, including those who did not request it. By making the offer up front, the investment manager is making a best effort to be transparent and inform the investor on the additional types of performance information available. This provides a level of consistency as to what is being calculated and offered between managers, increasing comparability.

Question 2: Do you agree that the above disclosure be added as a required element within Handbook Volume I?

Yes. Disclosures around the time period that is relevant to given statistics, and how partial periods are treated, improves transparency and is in line with the GIPS standards. The start date also allows the reader to determine if the return includes the impact of accrued liabilities when comparing to other accounts / managers (accrued carried interest will be larger for longer term investments). Time period disclosures also allow the investor to compare investment returns of managers making investments during the same time period, and consider any greater economic impact that may have contributed to returns (positive or negative). The added transparency allows for further understanding of factors that differentiate managers with similar funds.

Question 3: Do you agree that the above disclosure be added as a required element within Handbook Volume I?

Yes. Disclosures around how the initial cash flows were financed is important and improves transparency in marketing. This assists the reader in determining if a line of credit was used to help finance the fund either on the front-end or for ongoing cash flows. Additionally this will help in outlining whether the initial investment was made before the initial contribution for an investor, or the start date of the presented IRR. It is also important the firms have written policies outlining the treatment of financing cash flows in relation to their return calculations.

Question 4: Do you agree that the above disclosure be added as a required element within Handbook Volume I?

While we understand the desire for consistency, the end date is less impactful on the review of return information because it is traditionally treated consistently across all funds (when all investments are realized, the return calculation is complete). The additional reporting of individual investment performance allows the reader to get an understanding of this information without the additional clutter of another date in the footnotes of the page. Our recommendation would be to not require this disclosure.

Question 5: Do you agree that the Council should pursue reporting standards for investor specific reporting?

Yes, providing a template approach to begin the presentation of performance information would be helpful. However, we are weary on making any specific statistic a requirement. Establishing a listing of standard reporting items that should be made available for client reporting is important but we recommend against creating a rigid approach given individual reporting requirements and/or the preferences of different types of investors. A consistent theme has been evident that investors want bespoke information which does not necessarily lend itself to a broad standard, e.g. investors may want to be compared to a different benchmark than what the investment manager uses in marketing/policies. However, having a starting point for managers based on input from a large group of investors and consultants would be beneficial for the industry as it ensures managers are providing relevant and meaningful information investors want, allows for a more consistent understanding of the information provided, and provides an easier comparison of performance across managers through standardization.

Thank you for considering our comments.

Sincerely,

ACA Performance Services, LLC

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