NCREIF PREA Reporting Standards Exposure Draft

Proposed Changes to Time-Weighted Return and Related Disclosures Requirement for Closed-End Funds

Utah Retirement Systems Response, Tom Graham

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

NO

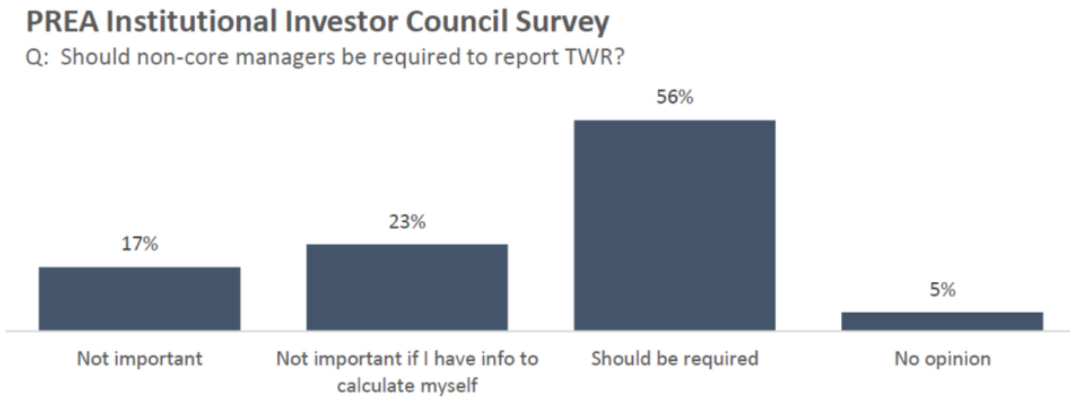
The current requirement of having funds report TWR-gross and net of fees on a quarterly basis provides a transparency and consistency for quarterly performance to investors. By changing the current requirement, you are know requiring the manager to have to take additional steps ensuring that both, the investors who want TWR receive them, and those who don't won't receive them. However, if the proposed changes were adopted, I would recommend and will comment further in question 1b, that the new requirement be an Opt-Out approach, meaning that managers are required to provide investors with TWRs unless the investor makes a request to not receive quarterly TWRs.

Question 1b: *If you answered yes to Question 1a, please indicate how you think TWR should be distributed (indicate "yes" or "no" to each of the following):*
• Distribute TWR to all investors unless the investor specifically indicates that they DO NOT want the TWRs

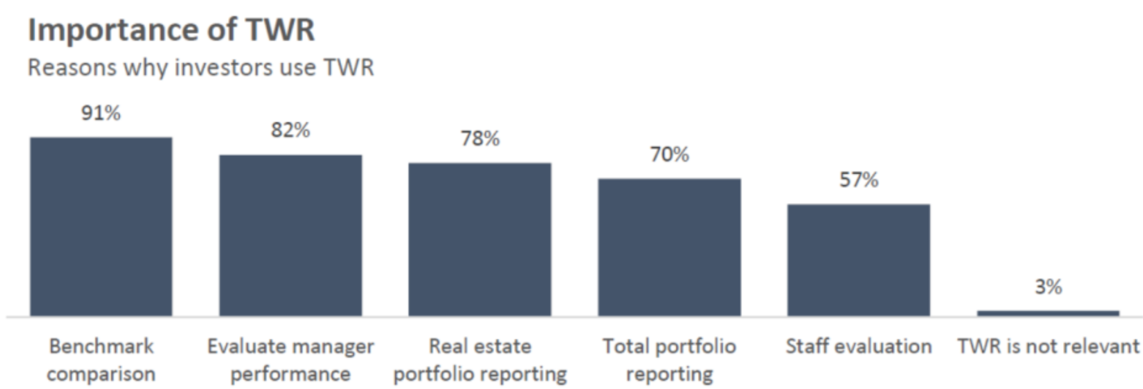
Although I answered No to Question 1a, I wanted to provide my opinion if the recommended changes are adopted.

The exposure draft on page 8 states, "Most institutional investors allocate capital to both open-end and closed-end funds and therefore, it is understandable that they seek a measurement tool that will allow for comparison of these strategies within their portfolios. Generally, closed-end fund investment managers have access to the input data for the TWR calculation and the technical tools to undertake the calculation and can readily provide it to investors. The question is not as to whether the information can be provided but rather why TWRs are important and relevant within the Reporting Standards."

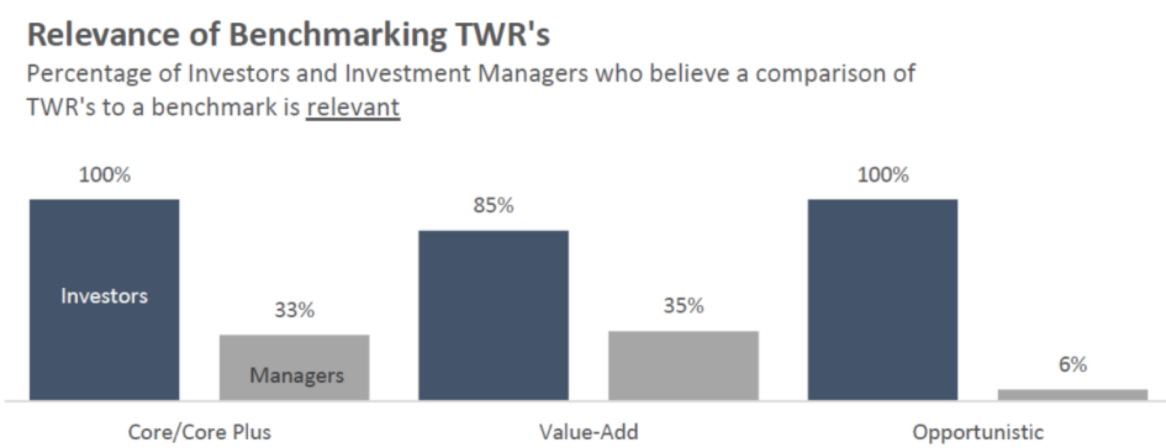
I would argue that it is relevant to require managers to provide TWRs because it is relevant to most of the investors who consume the data. I would agree that if the changes were adopted, the Reporting Standards should require managers to provide TWRs to all investors unless the investor specifically indicates that they do not want to receive TWRs. I would like to highlight some of the data provided within the exposure draft as reasons why it is my opinion that all investors should be given TWRs:



• The PREA data presented in the exposure draft states that 56% of investors believe that non-core managers should be required to provide TWRs. If you do not include the 5% who did not have an opinion that percentage jumps to 58.9%. Additionally, if you include the additional 23% that feel the TWR is important (adjusting for the 5% who have no opinion), 83.1% of those polled and have an opinion believe that TWRs are important.



• When investors were asked why they use TWRs, 91% state it is used for benchmark comparison, 82% state it is used for manager performance, only 3% state that TWR is not relevant.



• When investors and managers were asked if a comparison of TWRs to a benchmark is relevant, most investors (all investors for Core/Core Plus and Opportunistic) said it is relevant.

Part of the duty of a manager is to provide periodic returns (whether that be quarterly or annually) to their investors. Based on the data presented, I would argue that most, if not all, investors are going to want to receive TWRs on a quarterly and annual basis from their managers (to reiterate: 91% of those polled about why investors us TWR said it was for benchmark comparison, 82% said it was to evaluate manager performance). Therefore, it would make sense to require managers to provide TWRs to their investors and let those investors (the 3% who said it was not relevant) opt-out of receiving the TWR information on a quarterly and annual basis.

• *Distribute TWR to only those investors who specifically accept the offer made by the manager to provide TWRs*
If the changes to the Reporting Standards are adopted, I would recommend that managers be required to provide TWRs to all investors and let the investors who do not want to receive TWRs the ability to opt-out of receiving that return information. (see my answer above).

Question 1c: *If you answered no to question 1a, do you think that the Reporting Standards should move the existing requirement for TWRs for closed-end funds to a recommendation?*

No

By agreeing to change the existing requirement you are agreeing to adjust the Reporting Standards from what they currently are; you are, in essence, agreeing to either adopt the change and let investors choose to opt-in to receiving the TWRs data, or you are agreeing to adopt the change and let investors choose to opt-out of receiving the TWRs data. My opinion on which option is best can be found in my answer above in question 1b (see above).

Question 2: *Do you agree that the above disclosure be added as a required element within Handbook Volume 1?*

Time-weighted performance return start and end dates: If an Account Report includes since-inception returns, the performance inception date must be clearly disclosed. Likewise, performance end dates must be clearly identified. The treatment of partial period activity must be provided.

Yes, I have no problem with the above disclosure being added as a required element within Handbook Volume 1.

Question 3: *Do you agree that the above disclosure be added as a required element within Handbook Volume 1?*

IRR Start Date: If an Account commences operations and incurs operating activity prior to the initial cash contribution from the investors (e.g., and Account line of credit is used to finance 100% of initial operations), the Account Report must disclose how this financed cash flow is treated in the IRR calculation.

Yes, I have no problem with the above disclosure being added as a required element within Handbook Volume 1.

Question 4: *Do you agree that the above disclosure be added as a required element within Handbook Volume 1?*

Realized IRR End Date: The Account must disclose the ending date of the realized IRR calculation. If the final net assets of the fund/property haven't been distributed as of the IRR end date the method used in determining the final distribution and IRR end date must be disclosed.

Yes, I have no problem with the above disclosure being added as a required element within Handbook Volume 1.

Question 5: *Do you agree that the Council should pursue reporting standards for investor specific reporting?*
Yes, I believe that more data provide better understanding and in hopes better investing, so I would agree that it could be worth the effort of pursuing investor specific reporting.