NCREIF PREA
Reporting Standards

Via Email: standards@cfainstitute.org
CFA Institute Global Investment Performance Standards (GIPS®)
RE: NCREIF PREA Reporting Standards Response to the GIPS 2020 Exposure Draft
915 East High Street Charlottesville, VA 22902

December 28, 2018

Dear Members of the GIPS Executive Committee:

This letter represents the NCREIF PREA Reporting Standards Board's (RS Board) and Council's (RS Council) comments to the CFA Institute regarding the Exposure Draft of the 2020 Edition of Global Investment Performance Standards (Exposure Draft). We commend the Global Investment Performance Standards (GIPS®) Executive Committee for all the effort involved in updating, revising, and reimagining the GIPS standards to provide investors and managers with guidance that is more streamlined and structural than the current 2010 Edition of the GIPS standards (2010 GIPS). We appreciate the opportunity provided by the GIPS Technical Committee to comment on the Exposure Draft.

While the GIPS standards focus on the marketing of discretionary investment products to prospective investors, from our experience other organizations (such as NCREIF and PREA, for the creation and maintenance of the Reporting Standards, and INREV for its INREV Guidelines) look to the provisions of the GIPS standards as a foundation for discretionary and non-discretionary fund reporting requirements to existing investors. Accordingly, the industry best practice of performance inputs for existing investors essentially drives the same performance that goes into the GIPS Reports disseminated to prospective investors. We contend that GIPS reporting, NCREIF PREA Reporting Standards reporting, the INREV Guidelines, and investor specific reporting all provide different yet complementary objectives. The different reporting should not contradict each other, but (as indicated in our response) may provide additional information to address fund reporting nuances and investor specific requests.

With that, we encourage the Executive Committee and/or its GIPS Alternatives Working Group (whose members include those who participate in our efforts in the US and globally) to collaborate with industry organizations which represent investment managers, investors, and consultants (such as NCREIF, PREA domestically as well as our global counterparts, INREV, and ANREV within private real estate) to ensure that the requirements across alternative investments and portfolios are harmonized. This will prevent the need for investment managers to report performance in different manners leading to confusion rather than increasing transparency within the industry.

Our responses to the Requests for Comment are attached as Exhibit A. To assist in your review, we used the Word version provided to us. Attached as Exhibit B are comments relating to new terms on the glossary as well as a list of those terms which were removed, which we think are necessary to maintain.

Key Considerations

The focus in this response letter is to respond to the Exposure Draft on behalf of the private, non-listed real estate investment industry in the United States. Our response to the Exposure Draft questions is included in the attached. The following summarizes our most significant concerns:

Proposed elimination of key disclosures

Contrasted with the current investment-based performance standards in GIPS, we understand that the proposed 2020 Edition of the GIPS standards are structure-based performance standards. We agree that consistently applied structure-based standards will provide prospective investors with comparable representative presentations when making investment decisions across products and will eliminate some of the nuances and confusion when applying the GIPS standards to mixed-investment structures and alternatives. We are, however, concerned that within-product analysis is compromised as many product specific disclosures (particularly real estate) which were eliminated are necessary for investors to make informed investment decisions.

Private market investments, including real estate, calculate and report fair value-based performance returns. As such, our returns do not measure the public price of the investment, but rather measure performance using fair value assumptions (which are based on fair value generally accepted accounting principles in the US (US GAAP)). Among some of the disclosures removed in the proposed 2020 Edition of GIPS are the disclosures surrounding valuation. As valuation is a key driver of performance, investors want the details around valuation methodology, frequency, material differences between values used in performance versus the external valuations received, material changes to valuation policy and what portion of the portfolio assets received external appraisals during the annual GIPS reporting period.

Changes in Valuation Requirements

Presumably to combine all private market investments under a single umbrella, the real estate valuation (i.e., appraisal) requirements were relaxed. In 2010 GIPS annual external appraisals were required for real estate except in the case where the client requirements fall to 3 years or less. In the Exposure Draft, this requirement has changed to allow annual external valuations, or annual external valuation reviews, or annual audits of the financial statements. Although open-end commingled funds (e.g., real estate open-end commingled funds) are generally classified as limited distribution pooled funds, they do trade regularly, (e.g., quarterly or even monthly on a broker-dealer distribution platform). This is the primary reason the real estate industry continues to require external appraisals (by qualified individuals, as defined in our response) for open-end funds on at least an annual basis. Many open-end funds have adopted a quarterly external appraisal process. We understand there are other open-end commingled fund products within the private market investment space (e.g., farmland and timber) that have similar characteristics.

Contrasted with open-end funds, closed-end funds do not trade. Valuation is required to show the periodic performance of the fund. Accordingly, many closed-end real estate managers find no economic need for an annual external (i.e., independent third party) valuation of the fund's investments.

As another option to an annual external valuation, the Exposure Draft proposes that an "annual external valuation review" would satisfy the valuation requirement for private market investments. At a minimum, the guidance must clearly articulate the minimum requirements of, as well as differences between, a review and a valuation.

The third option for valuation is that of an annual financial statement audit. This provision requires further clarification. Although presumed, the Exposure Draft is not clear if these audits must: contain clean opinions; be based on fair-value; and conducted in accordance with accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

An alternative approach for valuations for closed-end funds is included in our response. This alternative relies on significant enhancements and disclosures surrounding valuations performed internally.

Suggestions include; detailed valuation policies and procedures; appropriate credentials; detailed research and analysis; and supervision.

In conclusion, we propose that open-end funds be required to maintain the annual external valuation requirement. For closed-end funds, consideration should be given to enhancing internal valuation requirements and associated disclosures.

MWR vs. TWR

In addition to the valuation issues described above, allowing private market investment managers to "choose" whether to report MWR or TWR based on certain criteria needs further refinement and clarity. Although IRR is the most commonly used money-weighted return measure for the real estate industry, other money-weighted returns are available[1], thereby compromising comparability. We suggest maintaining IRR or, at a minimum, requiring specific disclosure of the type of MWR utilized accompanied by appropriate levels of disclosure including, but not limited to, a computation methodology. In addition, the phrase, "when manager controls the cash flow" needs to be more forthcoming and less ambiguous. Although perhaps unintended, as currently worded, an open-end fund may be able to make the case for reporting IRR vs. TWR, as the real estate investment manager invests primarily in illiquid assets and has the ability (through queues and other provisions) to "control the cash flow". A carve-out for open-end funds can be utilized here as well. Perhaps the focus of the wording should be the ability of the firm to control the exit timing for *all* investors (e.g. no individual investor liquidity options). When the investor cannot unilaterally exit the fund, as in a closed-end fund with non-transferable shares or units, the firm is in control of the cash flows. In an open-end fund, while the firm has some control of cash flows through queues and other provisions, clearly the investor has a choice of requesting when to exit/leave and the settlement terms it is willing to accept.

Subscription Lines of Credit

In cases where subscription lines are utilized, the 2020 GIPS exposure draft proposes a requirement to calculate and present performance both with the subscription line of credit in place and, hypothetically, as if a subscription line was not utilized. We take exception to this proposed requirement as a one-size-fits-all solution. Subscription lines come in many forms and terms. Accordingly, we contend that disclosures surrounding terms, activity, and intent of use are important for an investor to formulate performance expectations, and as such must be required. In some cases, we contend that these disclosures are the sole appropriate treatment for the subscription line. An example would be short-term restricted use lines. In addition, there are cases when a with/without scenario does not convey the appropriate alternative solution. An example would be where credit facilities allow firms to move quickly to acquire properties and close a transaction using their credit facility in place of permanent debt. This allows firms to put long-term financing in place post-acquisition using attractive terms. Without the facility, the financing would likely have been put in place at acquisition, but possibly on slightly less favorable terms.

There are likely cases where a with/without calculation scenario may provide increased transparency to the investor. An example might be a long-term credit facility used by an open-end fund. In all cases, we suggest clear guidance as to both when and how this hypothetical return would be calculated. In all cases hypothetical performance must be clearly marked as hypothetical.

[1] See, *A new measure for the investment management industry: Time & Money Weighted Return,* by Joe D'Alessandro, Journal of Performance Measurement, Summer 2011

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Reporting Standards

Conclusion

At this point in time, the NCREIF PREA Reporting Standards required and recommended performance elements have aligned with the GIPS standards. We would very much like to continue on this path and, with the changes proposed herein we can continue to do so yet maintain your stated objective to reduce complexity and facilitate adoption without compromising the integrity of the GIPS standards.

We would be pleased to collaborate with the Executive and Technical Committees regarding our responses. Please feel free to contact Marybeth Kronenwetter, NCREIF Director, Reporting Standards (marybeth@reportingstandards.info) at 630-469-4088.

Yours truly,

Jerry Silvey

NCREIF PREA Reporting Standards Board Chair

Global Investment Performance Standards

QUESTIONS FOR PUBLIC COMMENT: GIPS 2020 EXPOSURE DRAFT

This document will assist you with the creation of your comment letter on the Global Investments Performance Standards (GIPS®) 2020 Exposure Draft. It includes all questions for public comment in the GIPS 2020 Exposure Draft, in the same order.

To request a Word version of this document, please email standards@cfainstitute.org

CFA Institute

www.gipsstandards.org

QUESTIONS FOR PUBLIC COMMENT: GIPS 2020 EXPOSURE DRAFT

Request for Comment #1

We use the terms "limited distribution pooled fund" and "broad distribution pooled fund." A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund (e.g., hedge funds, commingled funds). In some markets, these funds are not highly regulated. Broad distribution pooled funds are typically sold to the general public, and the firm may not know the client. These funds are typically highly regulated.

a. Are the terms limited distribution pooled fund and broad distribution pooled fund easily understood?

   Yes. We agree that the terms Limited Distribution Pooled Fund and Broad Distribution Pooled Funds are understood as defined in the glossary.

b. Are there terms that would better differentiate these two categories of funds? One suggestion is to use the terms "private funds" and "public funds."

   No. The terminology is best categorized as either broad or limited distribution, which is appropriately termed relative to the number of investors and the investment/investor relationship. We note that a fund could be private and still qualify as a broad distribution fund and highly regulated as such. For example, there are privately held real estate investment trusts that are marketed on broker/dealer distribution platforms to retail investors (e.g. Morgan Stanley, Merrill Lynch etc.). These funds are not traded on an exchange as a "public fund", yet qualify as a broad distribution fund and are highly regulated just as if they were public funds.

Request for Comment #2

Currently, the GIPS standards are silent on how quickly firms must update GIPS compliant presentations. (The term compliant presentation has been replaced with GIPS Composite Reports and GIPS Pooled Fund Reports. We also use the term GIPS Report to include both GIPS Composite Reports and GIPS Pooled Fund Reports.) Some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms should be required to update GIPS reports on a timely basis, even if the verification is not complete.

a. Do you agree that firms should be required to update GIPS reports within a specified time period?

   Yes. We agree that firms should be required to update GIPS reports within a specified period of time.

b. Do you agree that six months is the appropriate amount of time?

   No. Given consideration for illiquid and other alternatives, we would recommend that updating reports within a twelve-month time frame is more appropriate.

Request for Comment #3

Firms are required to include terminated pooled funds on the respective list for at least five years after the pooled fund termination date. This approach is consistent with the requirement for the list of composites.

a. Is it appropriate for firms to include terminated pooled funds on these lists when the pooled funds are not available for prospective investors?

   Yes. We agree it is appropriate to include terminated pooled funds on a firm's list of pooled fund descriptions, even when the pooled funds are not available for prospective investors, as it is consistent with the standard for terminated composites. There are no issues with the current length of the five-year requirement.

Request for Comment #4

Currently, firms are required to provide a complete list of composite descriptions to any prospective client that makes such a request. Under the new GIPS 2020 structure, firms can manage strategies for three types of products: composites, limited distribution pooled funds, and broad distribution pooled funds. This approach also creates three types of prospects: prospective clients for composites, prospective investors for limited distribution pooled funds, and prospective investors for broad distribution pooled funds.

a. Considering limited distribution pooled funds, we expect that firms would either wish to or would be required by regulation to tailor the list of these funds to the individual prospect. For example, a firm that offers these funds to prospects throughout the world would include only the funds appropriate to an investor in Switzerland if a Swiss prospect asked for this list. Do you agree that firms should be required to provide a list of only those funds that are appropriate to the specific prospect?

   No, we do not think this should be a requirement, unless specifically required by regulation. If not required by regulation, firms should have a choice whether to tailor the list of composites, regardless of the type of investment strategy in which the prospect was originally interested.

b. Unlike the lists for composites and limited distribution pooled funds, which must include both the name and the description of either all composites or limited distribution pooled funds, firms that manage broad distribution pooled funds would instead be required to have a list of such funds, and provide that list upon request. As a second step, firms would be required to provide the description of any broad distribution pooled fund upon request. We took this approach to acknowledge that many firms manage very large numbers of such funds, and maintaining a list of descriptions could be very challenging. We also acknowledge that most firms have very limited contact with prospects for these funds, if any. Do you agree with this two-step approach for broad distribution pooled funds?

   No. We do not see the benefit of having different requirements for composites, limited distribution pooled funds, or broad distribution pooled funds. It is unclear how maintaining a list of descriptions for broad distribution pooled funds is more challenging when these lists would still need to be maintained in the event a prospective investor requests the list. It is for this reason that we propose the standard be the same.

Request for Comment #5

In the GIPS 2010 edition, the notion of portability hinges on the requirement that performance from a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis, certain criteria are met. We have received feedback over the years that firms that do not want to meet the criteria will not do so, and portability will not be achieved. We decided to change the perspective and allow firms to choose to port returns if certain criteria are met.

a. Do you agree that firms should be allowed to choose, for each composite or pooled fund, when returns from a prior firm or affiliation are used to present the historical performance of the new or acquiring firm, if certain tests are met?

   We agree that firms must operate in the spirit of GIPS with fair representation and full disclosure when making this determination of portability. Each time a firm is faced with a portability decision, the firm should be required to disclose the result of this decision as to whether each criterion was met. Any interpretation of the criteria must be consistently applied in all portability decisions. This required disclosure must apply both in situations where the performance is ported as well as situations where the performance is not ported.

b. The one-year grace period allows a firm that acquires a non-compliant firm to not lose its compliant status because it does not immediately meet the requirements of the GIPS standards for the acquired assets. Do you agree that the one-year grace period should apply only to performance at the new or acquiring firm, and that firms should be able to port history from the prior firm or affiliation after the one-year grace period?

   Yes. We agree that twelve months is enough of a grace period for an acquiring firm to bring the acquired firm into compliance and that portability can occur thereafter. Allowing the firm to work backwards after it has brought the acquired firm into compliance on a prospective basis will allow firms to focus on bringing the current procedures into compliance without the firm having to try to focus on both current procedures and the historic track records.

c. In addition to the three tests that a firm must meet if it wishes to link performance from a prior firm or affiliation, there is a fourth test that must be met. There must not be a break in the track record between the prior firm or affiliation and the new or acquiring firm. Should this test be specified within this provision?

   No. We do not believe that this test should be included in the provision. The phrase “break in the track record between firms” is unclear. If a firm chooses to port a track record that carries the same strategy, then ***all*** periods of performance must be included, and, as such, there is no “break in the track record”. However, the standards allow a firm to revive a closed composite when a new account is opened (with the same strategy). In this situation, as long as the firm discloses the break in performance *and* the old track record is not linked (mathematically or visually) to the new track record, we see no reason that a firm that meets the other portability criteria should not be permitted to show the historic track record in a similar fashion by not linking the history.

Request for Comment #6

Firms may choose to present money-weighted returns instead of time-weighted returns for a specific composite or pooled fund if the firm controls the cash flows and meets at least one of the additional criteria for the composite or pooled fund.

a. Are the additional criteria the correct criteria for determining if money-weighted returns may be presented?

Yes. The additional criteria are the correct criteria. However, the phrase "firm controls the cash flows" needs more clarification and must not be left to interpretation in deciding which metric to present. The firm's control of external cash flows must be in the context of the ability of the investor to choose when to exit the fund within the fund provisions. When the investor cannot exit the fund unless the fund sells its units in a secondary market, as in a closed-end fund, the firm is in control of the cash flows. In an open-end fund, while the firm has some control of cash flows through queues and other provisions, clearly the investor has a choice of requesting to exit/leave.

b. Are the appropriate names used for these additional criteria?

Outside of needing clarity surrounding a firm controlling the cash flows, yes, the names used for the additional criteria are appropriate. Without clearly defining the control, the additional criteria stating "illiquid investments are a significant part of the investment" would qualify all real estate investments to be able to choose which metric to present. TWR is a better measure of performance than IRR for open-end funds. Conversely, IRR is a better measure of performance than TWR for closed-end funds.

In addition, although the IRR is the most commonly used money-weighted return measure for the real estate industry, other money-weighted returns are available, thereby compromising comparability. We suggest maintaining use of the name IRR over MWR. Otherwise, at a minimum, a requirement to disclose the specific type of MWR utilized accompanied by computation methodology and any other variation surrounding the metric calculation from an IRR is necessary. The NCREIF/PREA Reporting Standards will continue to use the term Internal Rate of Return.

c. Should firms instead be required to present money-weighted returns versus time-weighted returns for a specific composite or pooled fund when the firm controls the cash flows and it meets at least one of the additional criteria?

Yes, provided that the phrase "firm controls the cash flow" is clarified. We strongly encourage the guidance to specifically require open-end fund structures to report TWRs (at a minimum) and closed-end fund structures to report IRRs (at a minimum). Those are the most meaningful performance metrics for those pooled fund structures. A firm will provide other metrics upon investor request regardless, but for transparency those metrics must be required at a minimum for each type of structure.

Request for Comment #7

Currently, total firm assets must include both discretionary and non-discretionary assets managed by the firm. In the GIPS 2020 Exposure Draft, this requirement still holds. In the GIPS 2020 Exposure Draft, however, we allow firms to present advisory-only assets that are not managed by the firm but require that advisory-only assets be presented separately from total firm assets. This approach is to recognize that many firms' business models are changing. Also, firms have approached the treatment of committed capital differently when calculating total firm assets. Some firms consider committed capital to be part of total firm assets because the firm is charging an investment management fee on the committed capital. Other firms exclude committed capital because it is not under management before capital is called. We propose that firms must not include committed capital in total firm assets.

a. Do you agree that firms should be required to not include advisory-only assets in total firm assets?

In the context of real estate and yimber Investments, the new definition of advisory-only assets is not clear enough to differentiate from Non-Discretionary assets that are deemed as such from the firm's definition of discretion, which firms are allowed to define themselves. Without specific distinction between the two, this new term elicits inconsistency.

In previous versions of the GIPS standards the firm's definition of discretion included an allowance for the unique nature of real estate investing managed by advisory firms and the relationship between real estate managers and their clients. Specifically, this verbiage from the Guidance Statement 4-10 in the 2012 Edition of the GIPS Standards:

> *The firm's definition of discretion must include criteria such that if the firm has sole responsibility or sufficient decision-making authority for major investment decisions, the real estate portfolio must be considered discretionary. Major decisions include, but are not limited to, determining the investment universe, acquisitions, dispositions, investment structuring, financing, capital improvements, leasing, and operating budgets. In some cases, client-imposed restrictions may result in some decision-making authority being retained by the client. However, if the firm has sufficient decision-making authority to implement the intended investment mandate, objective, or strategy, the portfolio should be considered discretionary.*

Accordingly, the concept of "Advisory-Only assets" should not be applicable to Real Estate/Timber Investments. In addition, this concept may prove problematic for other Private Market Investments where discretion is determined by multiple factors as cited above.

b. Do you agree that firms should be required to not include committed capital in total firm assets?

Although not specific within the glossary of terms, the GIPS definition of Total Firm Assets is described as including "total discretionary and non-discretionary assets managed by the firm" (page 6 of Exposure Draft). Within real estate, the term "total firm assets" is not widely recognized, and the term "Assets Under Management" (AUM) is frequently considered synonymous. Within real estate, there is no single agreed upon calculation of assets under management. Issues where disagreement is evident include but are not limited to: treatment of joint ventures; presentation as gross and net; as well as whether or not to include unfunded but committed capital.

Arguments to include unfunded capital include the following:

- In many cases, the manager receives compensation based on unfunded capital over a specified time period during the investment phase.
- Unfunded capital may be used to obtain credit facilities.
- In development situations, a manager may be responsible for the entire development even though the costs associated with the development are incurred (and funded) in stages.

Arguments to exclude unfunded capital include the following:

- The unfunded capital is not currently invested by the manager and as such is not managed by the manager

- Unfunded commitments do not factor into the returns of the manager. Following the proposed logic of including unfunded commitments into the firm AUM, we would need to include those unfunded commitments in the composite report (currently the GIPS 2010 format discloses net assets of the composite and % leveraged – it does not look like GIPS 2020 changes that). There would therefore be a disconnect between the performance (which excludes unfunded commitments) and the footnotes, which would be misleading.

In conclusion, there needs to be clearer definition surrounding total firm assets. Further, the amount and treatment of unfunded commitments must be disclosed. Allowing for optionality in treatment affords the GIPS-compliant firm the opportunity to effectively market a particular business strategy to a prospective investor through transparent disclosures.

Request for Comment #8

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under a firm's control. Indeed, in some instances, firms may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) for composites if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

a. Do you agree that estimated transaction costs should be allowed?

   Yes. In the context of Private Market Investments, we agree that estimated transaction costs should be allowed as that is the essence of accrual accounting. However, we do not agree that using an estimate of transaction costs should only be allowed based on over-or-under-performance results when using actual costs. In real estate closed-end funds, actual total transaction costs in the final quarter of fund dissolution may not be known until reps and warranty periods are over; which could be beyond 6 months later. Disposition contingencies booked in the final quarter of performance may not be known until long after final performance was calculated and could swing either way. The guidance does not state what must be done, if anything, if the performance is less when using actuals than it was in the final quarter when using estimates. Therefore, more clarity is needed for Private Market Investments.

b. Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

   No, not in the context of Private Market Investments, otherwise if a firm did have the ability it would have no need for estimation.

Research costs and their relationship to transaction costs have become a focus in some markets. We do not specify how research costs must be treated, and we also do not require any related disclosures.

c. Should firms be required or recommended to treat research costs in a specific way?

   In the context of Private Market Investments, it is not clear what research costs are intended to mean. We suggest defining research costs in the glossary and doing so in the context of all investment types before determining requirements for cost treatment or disclosures.

d. Should firms be required or recommended to disclose how research costs are reflected in returns?

See response for 8c.

e. Should firms be required or recommended to disclose if research costs are separately charged to clients?

See response for 8c.

Request for Comment #9

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for firms that manage alternative strategies if the firm places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that firms may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

Yes, the guidance should be limited to certain types of assets, primarily private market investments or securities that are not actively traded. We suggest not using the word “funds”, as a fund may hold private and public investments and the guidance should be specific to the underlying assets being appropriately valued and disclosed.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

Yes. From our perspective, this should be included in the guidance instead of a provision.

Request for Comment #10

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

a. Do you agree that firms should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?

In the context of an IRR, yes, we agree that firms should be required to use daily external cash flows when calculating the metric. Please note, however, that for purposes of calculating since inception returns which contain both: pre- 2020 activity which may use quarterly (or monthly) external cash flows; and post 2020 activity which includes daily cash flows, there will be a need to earmark a specific date for the cash flow activity. We think any dating convention utilized by the firm (e.g., first of period, last of period or mid-period) needs to be disclosed or, alternatively, specific guidance should be provided within GIPS.

Consistent with our response to Question 6b above, please note that we think it is inappropriate to change IRR to MWR in the GIPS standards. If a choice of MWR is provided, without required disclosures surrounding the type of MWR, comparability across funds could be compromised, as prospective investors use GIPS reports to compare performance across funds. If the MWR reference is utilized in the 2020 GIPS standards, it is important to require specific disclosures including the type of MWR utilized in the calculation methodology.

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

No. At a minimum, quarterly cash flows must be used. See 10a above for comments concerning calculations of since-inception returns which contain different period conventions for the timing of cash flows.

Request for Comment #11

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, firms must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?

No. We require annual US GAAP fair value based financial statement audits within the Reporting Standards and strongly suggest that a requirement within the GIPS standards be explicitly stated. We are of the opinion that real estate investments must be valued on a quarterly basis. Quarterly valuations can be completed either internally or externally.

For all funds, valuations prepared by internal staff should include appropriate research and analysis to reach a credible conclusion. These internal valuations must be prepared in a transparent environment, prepared or supervised by competent professionals with appropriate valuation experience, and documented in a manner sufficient to permit an audit of results whereby steps leading to specific valuation outcomes can be verified. Further, internal valuations must use appropriate, established valuation techniques.

For open-end funds, each direct real estate investment must be valued by an external, independent, professionally designated property valuer or appraiser at least once every 12 months, unless the client contracts for a less frequent appraisal, but no less frequently than every 36 months. Additionally, external appraisals completed by independent third-party appraisers must be performed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) for U.S. investments and either the International Valuation Standards as set forth by the International Valuation Standards Committee (IVSC) or the appropriate authoritative standard in the country in which the property exists. Finally, differences between an external valuation engaged by or on behalf of the reporting entity and the valuation conclusion used in reporting, and the reason for the differences, must be documented.

For closed-end funds, each direct real estate investment must be valued by an external, independent, professionally-designated property valuer or appraiser at a frequency that is consistent with requirements stipulated by the account's governing documents. To the extent the funds governing documents do not require external appraisals, this fact must be explicitly disclosed to potential investors prior to the time of subscription. Additionally, external appraisals completed by independent third-party appraisers should be performed in accordance with USPAP for U.S. investments and either the International Valuation Standards as set forth by the International Valuation Standards Committee (IVSC) or the appropriate authoritative standard in the country in which the property exists. To the extent not performed by an external valuer or appraiser, in accordance with the above standards, details of the valuation services performed must be fully disclosed, including the scope of the services, level of detailed reporting, valuation type, and whether the valuer developed the valuer's own opinion of value or only performed a review. Finally, differences between an external valuation engaged by or on behalf of the reporting entity and the valuation conclusion used in reporting, and the reason for the differences, must be documented.

We require more clarity surrounding the term "valuation review" and therefore provide no additional comment.

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?

   Please see our response to question "a" above.

c. Are there any other types of valuation that should also be allowed?

   Please see our response to question "a" above.

Request for Comment #12

Currently, firms are required to present returns both with and without side pockets, when a composite includes only one pooled fund that has discretionary side pockets. Composites with multiple portfolios are not required to present returns both with and without side pockets. To eliminate differences between composites and pooled funds, and to acknowledge that firms should be accountable for all returns, including those of side pockets, firms will be required to present returns that include side pockets. Firms will not be required to present returns that do not include side pockets.

a. Do you agree with this approach?

   The use of side pockets in real estate is generally different than its common use among alternative investments of segregating liquid from illiquid investments. In real estate funds they are more commonly used to segregate specific assets, for example to allow partners to co-invest in specific deals (aka Side Cars), or to segregate assets to satisfy a buy-out or redemption request of a specific partner when the assets are not liquid. In some respects, they are essentially creating separate funds within a fund that may have different strategies or level of discretion. While acknowledging that it is important for firms to be accountable for all returns, we believe side pockets should be separately evaluated for their purpose for a determination of whether their performance belongs with the strategy. If so, then presenting returns that include side pockets is sufficient. More likely the returns should be carved out either in the same or a separate composite or deemed non-discretionary.

Request for Comment #13

Firms are recommended to use gross-of-fees returns when calculating risk measures.

a. Do you believe that firms should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Composite Report or GIPS Pooled Fund Report?

   From a Private Market Investment perspective, the risk measures required to present on a MWR GIPS Report (i.e., Total Paid in Capital, Total Distributions, Total Committed Capital, Investment Multiple, Realization Multiple, Fair Value over Paid in Capital, and Paid in Capital over Committed Capital) should always, at a minimum, be calculated and presented net of all fees and expenses where a NAV is used in the calculation. Please note that there are elements of risk that are best measured on a gross basis and, therefore, gross should be considered optional (or recommended). The important driver will be the determination of what specific risk is being measured.

b. Would your answer differ when there are performance-based fees or carried interest?

   No. All fees and expenses, and carried interest should be included in the required annual risk measures, (i.e., deducted from the net).

Request for Comment #14

Currently, firms are allowed to create sponsor-specific composites that include only that specific sponsor's wrap fee portfolios, when presenting performance to that sponsor. We removed the concept of a sponsor- specific wrap fee composite. Firms may still present sponsor-specific performance, but we view this as client reporting versus composite reporting to a prospective client. We also changed the term from wrap fee/SMA to wrap fee.

a. Do you agree with these changes?

   No opinion.

Request for Comment #15

To be responsive to specific constituencies, including private wealth managers and managers of private market investments, we propose that firms may once again allocate cash to carve-outs. If firms choose to allocate cash to a carve-out, they must do this for all carve-outs managed in that strategy. Once a firm obtains a standalone portfolio managed in the same strategy as the carve-out, the firm must create a composite that includes only standalone portfolios and must present the performance of this composite alongside the performance of the composite that includes carve-outs with allocated cash.

a. Do you agree that firms should be allowed to include in composites carve-outs with allocated cash?

   Yes, we agree that carve-outs with allocated cash should be allowed in composites. Under the current standards, carve-outs with separately managed cash are allowed to be included in composites. Assuming cash is allocated appropriately and consistently, the impact of allocating cash vs. separately managing cash should not be material. The carve-out's strategy does not change when cash is allocated versus separately managed, and therefore both are still representative of similar strategies.

b. Should firms be required to use a specific method to allocate cash to carve-outs?

At a minimum, there should be recommended guidance for allocating cash properly. This would encourage consistency without precluding firms that have alternate investment types or limited data available. Allocation methodologies should be a required disclosure.

c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?

No, we do not believe the allocation of cash to carve-outs would materially impact returns enough to warrant a separate composite. Requiring two composites would be burdensome and could generate confusion over which composite accurately reflects the firm's track record. Either way, the carve-out must still meet the composite's strategy, and allocating cash, or even including carve-outs with separately managed cash, does not change the carve-out's strategy. We do believe the firm must present the percentage of the composite that is represented by all carve-outs, regardless of including both allocated and separately managed cash or not. To promote clarity, the standards should define "standalone" portfolio, and acknowledge that there may be carve outs with separately managed cash in addition to carve outs with allocated cash in the same composite.

Request for Comment #16

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate–specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets, but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

Yes, we agree with GIPS eliminating the requirement to present component returns of income and capital for standardization purposes and we agree that real estate specific component returns should not be required for TWR GIPS Reports. We recognize that component returns are widely used in real estate and would be presented to investors if the component returns were requested or can be included simply to provide more information about the composite or pooled fund strategy.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

No, we do not agree with eliminating the requirement to separately calculate component returns. If component returns are not linked separately a firm is not "geometrically linking periodic and sub-period returns" and "consistently apply[ing] the calculation methodology used" for all returns presented when showing components. If a firm chooses to show component returns, the firm must be required to calculate and link them separately.

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

Yes. Component returns should be a recommendation, but again if presented, they must be calculated separately so that both components are geometrically linked.

Request for Comment #17

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

Intuitively, disclosures of information, regardless if in a GIPS context or elsewhere, are not provided if not considered relevant by those making the determination of relevance. Within the context of this response, we would have preferred that a summary listing of disclosures which compared 2010 GIPS to 2020 GIPS as proposed (required and recommended) be made available to respondents, in order to facilitate a thorough review and comprehensive response. Within our letter and our response to this specific question, as well as in other question responses, we have pointed to specific instances where disclosures are necessary or where we think clearer guidance can be provided. We do not represent that these noted disclosures are the only ones either necessary for real estate or needing of more guidance.

We generally anticipate that, in the spirit of fair representation and full disclosure (the hallmark of GIPS), preparers and verifiers will ensure that disclosures provide the necessary transparency and comparability which investors or prospective investors need to understand the information included within the GIPS Reports. We suggest that additional guidance is also provided within GIPS to ensure that there are qualifications addressing the instances when a disclosure can be modified or removed.

In addition to those addressed within our answers to specific questions, some examples of required disclosures, in the proposed 2020 GIPS standards, that may or may not continue to be relevant are:

i. The requirement to disclose significant events necessary to interpret the performance (4.C.16). We can all agree that this disclosure should no longer be required once the impacted performance drops off of the compliant presentation (if a manager has opted to only show the most recent 10 years of performance). However, does the manager have the ability to ascertain relevance in every case, or are there cases that may not allow this discretion? For example, if the management team leaves or is otherwise replaced we believe that this requirement should remain as long as the performance of the old team is shown in the compliant presentation.

ii. Redefinition of a firm (4.C.18) and redefinition of a composite (4.C.19) – do these disclosures need to be as extensive five or ten years after the redefinition as they do one year after the redefinition, or can they eventually be removed? We do not think that they should be removed unless the performance prior to the redefinition drops off of the compliant presentation. However, we can see no reason why the disclosure cannot be reduced to a sentence or two several years following the redefinitions; especially as the market is seeing more acquisitions and mergers in the investment management industry.

iii. Changes to a benchmark (4.C.29) – we agree with the proposed timelines for this disclosure.

iv. Error correction (4.C.35) – we agree with the proposed timeline of this disclosure.

v. Change in return type (4.C.39) – We believe that the decision to change the performance measurement metric is an important change and that this disclosure should remain longer than one year. With the potential for a manager to select if performance is best represented using TWR or MWR, the potential to switch more than once arises. Although multiple changes should not occur, it is easier to switch back and forth if the disclosure is only required for one year.

Please also note that we do not generally think that disclosures should vary based on a specific type of GIPS Report unless the information provided is different. Although we understand why the question was posed repeatedly, please note that our response is the same.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

See response to 17a.

Request for Comment #18

A Guidance Statement on Overlay Strategies has been exposed for public comment but has not been finalized. A key concept within this Guidance Statement is discussion of the various methods that can be used to calculate returns for overlay strategy portfolios. Because of the unique nature of overlay strategy portfolio return calculations, we propose requiring firms to disclose details about these calculations.

a. Do you agree that firms should be required to disclose details about these calculations for overlay strategy composites?

No opinion.

b. Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?

No opinion.

Request for Comment #19

We have expanded the ability to present money-weighted returns beyond private equity composites and closed-end real estate funds, if certain criteria are met. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money- weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end.

a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

Yes, we agree presenting the most recent annual period end Since Inception IRR for any GIPS report is more appropriate than presenting multiple interim annual SI period end IRRs.

Request for Comment #20

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line credit activity, whenever any line of credit has been used. A return with the line of credit reflects line credit activity as an external cash flow.

a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?

No, we do not agree with the requirement to calculate and present returns both with and without the credit facility. Credit facilities are widely used within the real estate industry for different purposes. For example, some are short in duration and used as a source of capital to close transactions quickly without the need to call money from investors with only short notice. Others can be of longer duration, more akin to debt. (See 20 c below.) Therefore, the appropriate solution is achieved through required disclosures on the activity, the terms, and the manner in which the facility is used. Users that require more information can ask for the specific data as they view most important to their analysis.

b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.

No. Subscription lines are only one type of leverage that is utilized in funds. Using such terms in this suggested change implies that there is an unlevered result if the sub-line is excluded, and that is incorrect in most real estate funds. These funds typically have property/project level debt and many larger investments have very complex financing structures with debt at multiple levels. The manner in which leverage is employed at the property, investment, or fund levels varies significantly among managers and this is just as important of a factor in evaluating relative performance.

c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?

No. We do not agree that all lines of credit have the same impact on the performance, as the lines come in many forms and terms. Within Private Market Investments credit facilities are used by firms for a variety of very appropriate reasons and, in all likelihood, alternative solutions would be employed if the credit facility were not in place. For example, the use of a short-term, limited or "restricted use" line of credit as a bridge loan is not utilized the same way as other subscription lines like those relating to the decision to call capital from investors. For example, a restricted use line of credit allows a firm to move quickly to acquire properties and close transactions using its credit facility in place of permanent debt. This allows the firm to put long-term financing in place post acquisition using attractive terms. Without the facility, the financing would likely have been put in place at acquisition, but possibly on slightly less favorable terms.

Furthermore, if imposed without a distinction as to which type of subscription line requires this calculation, we suggest including clear guidance as to how the return would be calculated without the use of the line, so that performance is calculated consistently and not left to interpretation.

d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

No. We do not feel this is the correct approach as this implies the use of subscription lines are only relevant to closed-end funds, when both types of fund structures utilize credit facilities.

Request for Comment #21

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

Yes, in the context of an IRR (see answer to #10 above) Composite GIPS Report, presenting only the most recent annual statistical information would match the IRR presented and would be most useful. However, if annual periods of IRRs are presented, the statistical information should match this choice as well.

Request for Comment #22

Once a firm obtains standalone portfolios that are managed in the same strategy as the carve-out with allocated cash, the firm must create a composite that includes only standalone portfolios and must present the performance of the composite of standalone portfolios along with the performance of the composite that includes portfolios with allocated cash. The composite that includes carve-outs with allocated cash will have a different inception date from the composite of standalone portfolios.

a. Do since-inception money-weighted returns with different start dates provide helpful information to prospective clients?

   No, since-inception IRRs with different vintage years do not provide comparable information to prospective clients. Perhaps when used in conjunction with various equity multiples, the user could glean insightful trends. Additionally, please refer to our comments on question #15. We do not believe the requirement to maintain separate composites for standalone portfolios with and without carve-outs adds value to prospective clients. To add transparency, firms should be required to disclose the percentage of the composite that is represented by carve-outs, but not required to maintain two composites for the same strategy.

Request for Comment #23

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See response to 17a.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   See response to 17b.

Request for Comment #24

Investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

a. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

   Yes, we agree. However, we do not agree with the distinction between investment structure and GIPS presentations when applying standards on presenting returns that either are or are not net of all fees and expenses. We believe that investors in all types of vehicles would be impacted by fees and expenses and would advocate reporting of returns after all fees and expenses for all GIPS Reports. We do not see a reason to exclude any fees and expenses for either performance or any applicable risk measures.

Request for Comment #25

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate–specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

   See our response to 16a.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

   See our response to 16b.

c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

   See our response to 16c

Request for Comment #26

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See our response to 17a.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   See our response to 17b.

Request for Comment #27

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the pooled fund's inception through the most recent annual period end. Also, investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

   See our response to 19a.

b. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

   See our response to 24a.

Request for Comment #28

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?

   See our response to 20a.

b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.

   See our response to 20b.

c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?

   See our response to 20c.

d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

   See our response to 20d.

Request for Comment #29

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

   See our response to 21a.

Request for Comment #30

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?

   See our response to 17a.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

   See our response to17b.

Request for Comment #31

Currently, the GIPS standards are silent on how quickly asset owners must update GIPS-compliant presentations. (For Asset Owners, the term compliant presentation has been replaced with GIPS Asset Owner Report.) Although we have not seen this happen with asset owners, some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms and asset owners should be required to update GIPS reports on a timely basis, even if the verification is not complete.

a. Do you agree that asset owners should be required to update GIPS reports within a specified time period?

   Yes, we agree that asset owners should be required to update GIPS reports within a specified period of time.

b. Do you agree that six months is the appropriate amount of time?

   Considering illiquid and other alternatives, we would recommend that updating reports within a twelve-month time frame is more appropriate.

Request for Comment #32

Consistent with the Guidance Statement on the Application of the GIPS Standards to Asset Owners, if an asset owner has the authority to compete for business by marketing to prospective clients, as is done by firms, the part of the asset owner that is competing for assets must be defined as a separate firm. This separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements.

a. Do you agree that this concept should continue?

   No. The issue is that a single organization and its resources may support more than one type of client and still be known by all as a single entity. Creating two firms creates confusion with little/no value of having defined two firms.

   We suggest that a firm can be a hybrid whereby the entity applies the standards that are appropriate based on the nature of the relationship with the intended consumer. Following the hybrid approach, the composite would need to indicate the percentage of assets associated with the activity (e.g. asset owner vs investment manager). The hybrid approach could only be pursued when both segments of the entity are able to make the claim of compliance.

   For example, an entity could make the claim of compliance as an asset owner with the minimum 1-year track record. Once the entity had a 5-yr track record for both the asset owner and investment manager, it would revise the firm definition to include both segments of the business.

Request for Comment #33

Asset owners may choose to present time-weighted returns or money-weighted returns for additional composites.

a. Do you agree that asset owners should be allowed to choose which returns are presented for the optional additional composites?

   Yes. Asset owners should be allowed to choose which returns are presented for the optional additional composites.

Request for Comment #34

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under an asset owner's control.
Indeed, in some instances, asset owners may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

a. Do you agree that estimated transaction costs should be allowed?

   Asset owners are consistent with the response for Firms in our response to 8a.

b. Do you believe that asset owners will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

   Asset owners are consistent with the response for Firms in our response to 8b.

Request for Comment #35

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for asset owners that manage alternative strategies if the asset owner places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that asset owners may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?

   Asset owners are consistent with the response for Firms in our response to 9a.

b. Should this guidance instead continue to be included in guidance rather than included as a provision?

   Asset owners are consistent with the response for Firms in our response to 9b.

Request for Comment #36

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

a. Do you agree that asset owners should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?

   Asset owners are consistent with the response for Firms in our response to 10a.

b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

   Asset owners are consistent with the response for Firms in our response to 10b.

Request for Comment #37

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, asset owners must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?

   Asset Owners are consistent with the Firm's response to 11a.

b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?

   Asset Owners are consistent with the Firm's response to 11b.

c. Are there any other types of valuation that should also be allowed?

   From the asset owner perspective, the intention is an independent source of valuation assessment, preferably annually, with internal valuations at interim quarter-end periods. Some valuation policies require investor commissioned appraisals annually for all assets that are majority owned by investor or for assets where we have the right to record investor valuation in the financials. In vehicles where asset owners control the process, we defer to manager policy and agree with the industry process mentioned in the Firm response for 11.

Request for Comment #38

Asset owners will be required to present returns that include side pockets but will not be required to present returns that do not include side pockets.

a. Do you agree with this approach?

   Yes. The approach is appropriate.

Request for Comment #39

Asset owners are recommended to use gross-of-fees returns when calculating risk measures.

a. Do you believe that asset owners should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Asset Owner Report?

   Asset owners should be required to use net-of-fees returns to calculate risk measures within an Asset Owner Report that measures performance net. It should be noted, however, that there are elements of risk that are best measured on a gross basis and, therefore, gross should be considered optional (or recommended). The important driver will be the determination of what specific risk is being measured. As an example, investment level risk may be effectively measured on a gross basis if the asset owner wants to evaluate the appropriateness of the fee level based on that investment risk. Asset owners likely have significant control over the level of fees that they are willing to pay.

b. Would your answer differ when there are performance-based fees or carried interest?

No. All fees and expenses including carried interest and any other type of fees owed to the advisor or otherwise, should be included in the net of fee returns to calculate the required annual risk measures.

Request for Comment #40

In GIPS 2010, asset owners are required to present income and capital component returns for real estate composites. When calculating these component returns, asset owners are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate–specific requirements and have expanded the concept of component returns to all composites and total funds. Asset owners would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Asset Owner Reports that include time- weighted returns, and we expect that asset owners will present component returns where it is customary for a specific market to do so.

a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?

Although component returns are unique to real estate, we agree that component returns should not be required. We recognize that component returns are widely used in real estate and would be presented if the component returns were requested.

b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?

No, we do not agree with eliminating the requirement to separately calculate component returns. If each component of the return is not linked separately, "geometrically linking periodic and sub-period returns" and "consistently apply[ing] the calculation methodology used" for all returns presented, is not accomplished. If an asset owner chooses to show component returns, the asset owner should be required to calculate and link them separately.

c. Do you agree that component returns should be recommended for all total funds and composites when time-weighted returns are presented?

No. In the context of real estate, component returns can be useful. Whereas within equities, component returns are not customarily presented. Therefore, asset owners will present component returns within a GIPS Asset Owner Report when it is customary within a particular asset class to do so.

Request for Comment #41

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   Asset Owners are consistent with the Firm's response to 17a.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   See response to 41a.

Request for Comment #42

Asset owners may choose to present money-weighted returns for additional composites in a GIPS Asset Owner Report. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require asset owners to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. If the asset owner does not have records to support this track record, however, the asset owner must present the annualized money-weighted return for the longest period for which the asset owner has such records, through the most recent annual period end. This is to acknowledge that asset owners have very long histories and some of the earlier records may not be sufficient to support the entire track record.

a. Do you agree that asset owners should be required to present only one return: the since-inception money-weighted return through the most recent annual period end?

   Yes, we agree presenting the most recent annual period end Since Inception IRR is more appropriate to require than presenting multiple interim annual SI period end IRRs.

b. When asset owners do not have records to support the entire track record, do you agree that asset owners should instead be required to present the money-weighted return for the longest period for which the asset owner has such records?

   We are hard pressed to identify a scenario where an asset owner would not have the records to produce an IRR aligned with the standards for periods that pre-date the inception of the composite. Additionally, lack of specificity around the starting point could easily lead to cherry picking performance periods without supporting the longest period in a transparent way. We suggest that an asset owner refrain from providing an IRR at all when the records are not available to support the entire time period expected to be calculated as using the "longest period" available is too subjective to be transparent.

Request for Comment #43

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require asset owners to present only one return—the since-inception money-weighted return through the most recent annual period end or, in the absence of records, the money-weighted returns for the longest period for which the records are available through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end.

a. Do you agree that asset owners should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

   Yes, in the context of presenting a SI IRR as of the most recent annual period end, presenting only the most recent annual statistical information would match the IRR presented and would be most useful. However, if annual periods of IRRs are presented, the statistical information should match this choice as well.

Request for Comment #44

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   Asset owners are consistent with the Firm's response to 17a.

b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

   See the response to 44a.

Request for Comment #45

Except for broad distribution pooled funds, firms and asset owners are not required to include risk measures, either quantitative or qualitative, in GIPS advertisements that include performance.

a. Should firms and asset owners be required or recommended to include risk measures in all GIPS advertisements?

   If the intent of these guidelines is to provide guidance to creating advertisements in addition to all of the requirements for Firms and Asset Owners in the GIPS standards, then the risk measures would be provided based on the applicable GIPS Report. Therefore, we agree this is appropriate as a recommendation and that the requirements for the GIPS Reports should dictate the requirement for risk measures.

Request for Comment #46

a. Do you agree that firms should be required to include benchmark returns in a GIPS Advertisement for a broad distribution pooled fund that includes performance?

   We agree that, if a broad distribution pooled fund claims compliance in an advertisement, it should adhere to the same requirements regarding benchmarks, including providing a disclosure if there is no appropriate benchmark, as if the fund were to provide a GIPS Pooled Fund Report.

Request for Comment #47

The term “sales charges and loads” is defined as the costs associated with buying or selling shares of a pooled fund.

a. Is this a well-understood term, or is there a better term?

   We deem this term to be too vague as it applies to all investment classes and needs to be more specific in that context. For example, from a real estate investing perspective, we need more clarity if the intent is to consider the term to include front-end load costs, back-end load costs, specific broker/dealer commissions the fund would pay, vs. fees to the financial advisor from the investor that can be netted from the contribution, and is outside of the fund.

Exhibit B – Glossary Observations

We acknowledge the efforts to homogenize the GIPS standards within private market investments but encourage specific reference to NCREIF/PREA Reporting Standards for expanded definitions and guidance. Please note that these observations are in addition to any suggested defined terms within our responses where applicable. This is not representative of an exhausted list of defined terms, and our comments may change once the final 2020 Edition of GIPS standards is released. We believe the below defined terms have specific meaning within the real estate industry that could have a variation of meaning when applying to other industries. We ask that these are either considered to be reinstated as noted specifically to Real Estate use, or overall redefined as below should the definition fit the broader financial use.

Redefine terms for Real Estate clarity and use:

1. **Advisory-Only Assets:** This is not applicable for Real Estate nor Timber and will create unnecessary confusion as to how this differs from Non-Discretionary assets where we prefer a reference be added that this term is not applicable to Real Estate and Timber. Other private market investment views on applicability should be considered as well as "not applicable to private market investments" may be an appropriate qualification.

2. **Capital Return:** Should state also known as "appreciation" return.

3. **Closed-End**: Within Real Estate, a closed-end structure identifies more than just a finite life and fixed amount of capital. There is no choice to the investor as to when they can exit the fund and redeem shares. We would prefer additional verbiage be added as *Closed-end: An investment vehicle with a fixed amount of capital and a finite life, as well as limited liquidity with the redemption of units provided for at the end of the life of the vehicle.*

4. **Component Returns:** Should reference that these are components of the TWR and that accrual accounting is used to calculate.

5. **Expense Ratio**: We have found significant inconsistencies within real estate (and understand the same to be true in private equity) when measuring fund load (or burden). Simply looking at fees or expenses in isolation does not provide information to facilitate appropriate analysis. We would be happy to share with you our newly developed Total Global Expense Ratio where measures of fund load are calculated and presented on a comparable basis. We caution the use of the definition provided for real estate. We would prefer an exception to this as noted specifically to real estate as *Expense Ratio: A measure of the fees and expenses associated with the investment vehicle, including transaction costs, effectively resulting in a measure of the investment load. This ratio can be measured on both a net asset and gross asset basis.*

6. **External Valuation:** The term is too vague and too open to interpretation. See comments on Question 11 and consider appropriate revisions to the glossary. We request that the retired term be reinstated as it added necessary clarity for Real Estate as *External Valuation: An Assessment of value performed by an independent external third party who is a qualified, professionally designated, certified, or licensed commercial property valuer/appraiser.*

7. **Illiquid Investments:** Should be defined *as investments which cannot readily be monetized.* The notion of illiquid being difficult to sell without a price deduction is not appropriate in the context of private market investments.

8. **Income Return:** We think it is appropriate to read that the income is calculated using accrual accounting and request this be defined as one of the *components* of the total return and not "portion of" as a component is calculated on its own and not a portion of the other.

9. **Internal Valuation:** We request that the retired term be reinstated as it is an extremely commonly known term for Real Estate. See response to question 11. *Internal Valuation: An estimate of value based on the most current information available using methodologies that include applying a discounted cash flow model, using sales comparisons or replacement cost approach, or conducting a review of all significant events (relating to market research and the specific asset) that could have a material impact on the investment.*

10. **Limited Distribution Pooled Fund:** We think that this definition should not reference "private funds" in the definition as some private funds are also broad distributed pooled funds even though not offered on a public exchange.

11. **Money-Weighted Return:** Money-weighted returns are a measure of the rate of return for an investment that is derived by setting the present value of all cash flows and terminal values equal to the initial investment. In other words, the money-weighted rate of return as defined herein is simply the definition of Internal Rate of Return (IRR). Since not all MWR are IRR we suggest maintaining reference to IRR and not MWR.

12. **Professionally Designated, Certified, or Licensed Commercial Property Valuer/Appraiser:** We request this term be reinstated and defined specifically for Real Estate. See response to question 11.

13. **Subscription Line of Credit:** The current definition does not apply to all scenarios of a subscription line. See our response to Question 20.

14. **Total Pooled Fund Fees:** This description is misleading and should be relabeled as total pooled fund fees and costs (or expenses), not simply fees.

15. **Valuation Review:** This definition needs more clarity. See comments provided on Question 11.