# Total Global Expense Ratio Improves Fund Expense Reporting

**Anne Anquillare**
PEF Services LLC

**Barbara Flusk**
Citco Fund Services, (USA) Inc.

**Greg MacKinnon**
PREA

**Greg MacKinnon, PREA's Director of Research,** recently met with Barbara Flusk, Head of Real Asset Fund Services at Citco Fund Services, (USA) Inc. and a member of the NCREIF PREA Reporting Standards Council, and Anne Anquillare, CEO and President of PEF Services LLC. Both were members of the team charged with developing the Total Global Expense Ratio (TGER).

**Greg: Can you give me the 30,000-foot overview of what the Total Global Expense Ratio is and what the catalyst was for developing it in the first place?**
*Barbara:* It is a performance metric that was created for investors to enable them to understand what the fee and fund expense burden is on any of the funds that they invest in regardless of location. It was meant to formalize information and provide investors with comparability and transparency on fund expenses. TGER grew out of a joint global initiative that was formed by NCREIF, PREA, INREV, and ANREV to align private real estate standards.

**Greg: Previous to this, INREV had its own Total Expense Ratio (TER) and the NCREIF PREA Reporting Standards had the Real Estate Fees and Expenses Ratio (REFER). How does TGER fit with those? What problems is TGER solving that weren't already solved by the previously existing standards?**
*Barbara:* TGER is an enhanced version of both those ratios. We took the differences between the two and aligned them into one standard that could be used across the board. So now, regardless of the accounting policies or individual industry standards or regional reporting differences for overall operations, there is one standard. Whether it is an open-end fund, is a closed-end fund, is located in Asia, in Europe, or in the US, we tried to normalize all that information.

**Greg: So just to make sure I have it clear: if I am an investor and I am comparing the fee burden on a closed-end fund in Europe to an open-end fund in the US to a closed-end fund in Asia, as long as those funds are abiding by TGER, can I use that to compare on a fair basis across all those funds?**
*Barbara:* That is correct.

**Greg: That makes it easier for everybody, doesn't it?**
*Anne:* We certainly hope so. I would say that having a common language among geographical regions when it comes to fees and expenses was key. It took a lot of time and effort, but we think that has been accomplished.

**Greg: Anne, you come from a general private equity background as opposed to specifically a real estate background. Why was it important for the Reporting Standards team to have that private equity perspective involved in the development of TGER?**
*Anne:* The issues around fees and expenses are really important across all the illiquid alternative asset classes. My focus is on the illiquid alternative classes, including closed-end private equity real estate. There is much more capital considering these asset classes than ever before. However, that inflow of new money and new types of investors is not going to be fully realized unless we have standards for data and reporting. So the same efforts that Barbara and the Reporting Standards Council are going through is in all the other illiquid alternative asset classes—private equity, private debt, and even venture capital. All asset classes are trying to come up with standards for data and reporting. That has always been a first step in any of the asset classes. So it made a lot of sense from the private equity real estate perspective to wrap in the efforts that were in place with reporting standards in other sectors. There was and still is a lot of momentum to coordinate not only globally, as Barbara mentioned, but also among the illiquid asset classes because they are more alike than not. It made a lot of sense to put effort into sharing the knowledge and making sure it is being coordinated.

**Greg: If all the various sectors within illiquid alternatives are working on similar kinds of things, are there measures in those other sectors, such as private equity, that are comparable to TGER? What are they doing in those other sectors, and are the measures they are producing comparable to TGER now?**

*Anne:* I wouldn't say it is a direct comparison. There are definite efforts focused on fee and expense transparency; that is a common goal among all the illiquid alternative assets. There is strength in numbers, so as TGER made real strides forward in setting standards, other asset classes took notice because we are all trying to reach this critical mass for adoption. As an example, TGER tackled a special global issue: how to treat the same expense resulting from work provided by an in-house team versus an outsourced vendor. After working through it and identifying standard terminology, TGER is now able to categorize the same expense regardless of who is providing the service. This was key, as you now have the same expense being captured and reported the same way, even though one fund might operate a little differently than another fund. You might think this is a minor point, but the SEC just issued an administrative order including some serious penalties against a private equity real estate firm on this very issue. I will guarantee you that a lot of people, both in real estate and in the illiquid alternative asset classes, are now looking at how TGER solved this conundrum.

**Greg: Do you think real estate may actually be a trend setter within the alternatives?**

*Anne:* It definitely is leading the way in many areas that are also being tackled by other illiquid asset classes. Absolutely, pat yourselves on the back.

**Greg: At this point, though, if I compare the total fee load on a private equity real estate fund that follows TGER to a general private equity fund, the general private equity people have not quite caught up, so the two funds are not totally comparable yet. Is that true?**

*Anne:* There is an iterative effort, and some of the information that TGER captures is also on ILPA's Reporting (fee and expense) Template. There is an ongoing effort to coordinate, so it doesn't matter whether it goes into the TGER calculation or the ILPA Reporting Template, as long as the information is captured.

*Barbara:* There is a published Reporting Standards Supplement that allows real estate data to be brought into the ILPA template. That tool is available on the Reporting Standards website.

*Anne:* Kudos must go to both sides. In the past, each illiquid class focused on what was different and distinguished it from the other sectors. They lost track of how investors often view them under one umbrella and the fact that they are more alike than not. And there is strength in numbers. To the extent that we get a standard that works for many investors, we can coordinate our efforts to capture the data once and report it however it is needed by the investor—and actually get adoption, which is the whole point.

**Greg: A number of investors have changed their asset allocation structures now so that, for example, they have a private markets allocation with private equity and private equity real estate under one umbrella. I am sure other people in that situation would love to have things be standardized and comparable across those different sectors.**

*Anne:* Sure. And the fund managers want it too because one fund manager should not be put at a disadvantage compared to another based on how the same expense is classified. The fund managers really want comparability across the board so they are on an even playing field.

**Greg: Why would an investor ask for TGER from a fund manager or prospective fund manager? What does an investor learn from looking at that that can't be learned by just looking at the reported gross and net returns?**

*Barbara:* You get a mismatch of transparency and comparability. TGER is really to help investors see and understand what they are investing in.

**Greg: Just to be clear: if I am comparing two funds that do not follow TGER, and I look at the gross-to-net spread they are reporting, and one fund says the spread is 2% and the other says its spread is 1.8%, if they are not following a standardized approach such as TGER, I can't necessarily compare those two and say one fund has more fees, correct?**

*Anne:* Without a standard, it is very hard to compare. There may be other underlying components of the calculation of the gross-net spread that may cause that differential. So understanding what is going into that calculation is important as well.

*Barbara:* Yes, I agree. For example, fund expenses are typically deducted from the gross return calculation, and therefore the gross-to-net spread mainly represents fees. Also, the denominator is different. TGER uses a GAV-based denominator, whereas TWR uses NAV and IRRs use cash flows.

**Greg: From a fund manager's side of things, obviously reporting in compliance with TGER will require some effort. What is in it for the fund manager?**

*Anne:* I think the key is the comparability—the same comparability that the investors want so they can compare fund managers. Funds are getting increasingly complex, and as the complexity increases, the potential for disparities on presenting performance metrics increases as well. Having a standard with everybody on an even playing field allows fund managers that truly have the performance and expense management skills to shine.

*Barbara:* And to add to that, let's face it—investors are asking for more and more information on fees and expenses, and that becomes part of their analysis into where they place their capital.

**Greg: A lot of different organizations are involved in this, working on the same types of things. Do you foresee an eventual effort to standardize everything, globally and across the various alternative sectors?**

*Anne:* I think we will always need to have data specific to a particular sub-asset class, but the specific data can be consolidated into a more umbrella-level performance reporting standard. There shouldn't be confusion or five different definitions for the same expense, so there needs to be a coordinated effort across the sub-types. I would say we should be working toward a goal of having two layers: one for the specific illiquid sectors and a second layer for illiquid assets overall for comparability and standardization.

**Greg: Thank you on behalf of the industry for your efforts. Congratulations on getting it done. Unfortunately for both of you, Barbara and Anne, there is probably more work to do in the future, but you have done a lot of work already, and everyone is very grateful.** ■

*Greg MacKinnon (greg@prea.org) is the Director of Research at PREA.*