

DEBT FUND MANUAL



NCREIF PREA **Reporting Standards**

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The NCREIF PREA Reporting Standards Debt Fund Manual has been developed with participation from NCREIF's Accounting, Valuation and Performance Measurement Committees, CREFC, and other industry professionals. The Debt Fund Manual is endorsed and approved by the NCREIF PREA Reporting Standards Council.

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The National Council of Real Estate Investment Fiduciaries (NCREIF)

The Pension Real Estate Association (PREA)

NCREIF and PREA encourage the distribution of NCREIF PREA Reporting Standards among all professionals interested in institutional real estate equity and debt investments. Copies are available at www.reportingstandards.info.

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INTRODUCTION

1.01 Background

The NCREIF PREA Reporting Standards (Reporting Standards) have been developed with a mission to establish, manage and enhance transparent and consistent reporting standards for the real estate industry, fostering comparability and informed investment decision-making. The Reporting Standards build on, but are not intended to replace, established standards issued by authoritative organizations, including, but not limited to the following:

- Global Investment Performance Standards (GIPS®) promulgated by the CFA Institute;
- Generally Accepted Accounting Principles (GAAP) in the United States established by the Financial Accounting Standards Board (FASB); and
- The Uniform Standards of Professional Appraisal Practice (USPAP) developed by the Appraisal Standards Board of the Appraisal Foundation.

Collectively, these established standards are referred to as the Foundational Standards. The Reporting Standards include required and recommended elements of reporting (Volume I), as well as practical guidance that established standard-setting organizations do not specifically address regarding institutional real estate investment reporting (Volume II). The Reporting Standards are co-sponsored by the National Council of Real Estate Investment Fiduciaries (NCREIF) and the Pension Real Estate Association (PREA). More information on the co-sponsors can be found on their respective websites: www.ncreif.org and www.prea.org.

Historically, the Reporting Standards focused on real estate equity funds and investments. In March 2021, the Reporting Standards launched a project to expand to include debt funds and investments resulting in the release of updated Reporting Standards in April 2023. The corresponding adopting release of the updated Reporting Standards can be found here: [Reporting Standards Adopting Release April 2023](#). The adopting release summarizes the changes made to the Reporting Standards and includes feedback received and conclusions reached, questions posed via exposure draft, and survey results included in the exposure draft.

Concurrently, NCREIF launched a working group jointly with the Commercial Real Estate Finance Council (CREFC) to develop data collection templates, data analytics and reporting resulting in the inaugural publication of the NCREIF/CREFC Open-end Debt Fund Aggregate in August 2023.

1.02 Purpose

The Debt Fund Manual (Manual) has been created to provide clarification and guidance related to:

- Complying with the Reporting Standards for debt funds. As noted above, the required and recommended elements for reporting can be found in Volume I. Compliance with the Reporting Standards is measured on an account (or fund) basis and all required elements must be reported. Recommended elements are considered best practice and may be applicable in certain situations. A Debt Fund Checklist has been created as a quick reference guide and is included in Appendix A. The Debt Fund Checklist should be used in conjunction with Volume I.
- Supporting the NCREIF/CREFC Open-end Debt Fund Aggregate (Aggregate) and any other subsequent data products.
- Industry best practices and other reporting metrics that may be used in the debt fund industry.

The Manual will be reviewed on a regular basis (at least annually) and updated as needed. Suggestions for improvements, clarifications and additional topics should be directed to administrator@reportingstandards.info.

1.03 Acknowledgements

The Reporting Standards Council and Board would like to acknowledge the Manual task force, which is responsible for the contents and completion of the Manual. In addition, the leadership of the Reporting Standards Council, NCREIF and the standing committees, and CREFC are to be acknowledged for the support and commitment to review and provide feedback throughout the Manual development process. It truly has been an industry effort.

The list of the Manual task force members and their respective firms can be found in the Appendix E to the Manual.

1.04 Organization of Manual

In addition to this introduction, this Manual has separate sections that address the following topics for debt funds and investments:

- Accounting
- Valuation
- Performance measurement

1.05 Terminology

Debt investment types

This Manual covers various debt investment types, including senior loans, subordinated loans, real estate owned (REO) assets, and securitized debt.

Subordinated loans encompass junior notes, structurally subordinated mezzanine loans, preferred equity interests in property-owning entities, and other similar subordinated real estate debt investments.

Commercial real estate property types include, but are not limited to, residential, industrial, office and retail properties.

- **Senior Mortgage:** A first mortgage that has a primary lien against the real estate property, taking precedence or priority over all other mortgages or subordinate loans in the event of default.
- **Junior Mortgage:** A mortgage secured by real estate subordinate to a first mortgage. It often refers to a second mortgage, but it could be a third or fourth mortgage or a subordinate interest in a senior mortgage. In the case of a foreclosure, the junior mortgages would receive repayments only after the senior (first) mortgage has been paid off first.
- **B-Note:** A B-note is the junior/subordinate portion of a split mortgage to one or more senior promissory notes, referred to as A-notes. The A-Note and B-Note of a given loan are secured by the same senior mortgage. However, the A-note is the senior piece and has the highest priority. The B-note is the subordinated piece, with lower repayment priority and thus, higher risk.
- **Mezzanine Loan:** A loan that is subordinate to the primary mortgage and that is secured by a pledge of the equity interests of the entity owning the property instead of secured by the real property itself. The borrower pledges its equity interest in the property as collateral for the mezzanine loan. A

mezzanine lender's remedy enforcement mechanisms are governed under the Uniform Commercial Code (UCC) rather than the state specific statutes that govern mortgage loan remedy enforcement mechanisms.

- **Preferred Equity:** Preferred equity is a form of subordinate financing that is structured as an equity investment in the property-owning entity or at the joint venture entity. Repayment is achieved through priority rights of cash flow and/or capital proceeds. These distribution rights may be structured to replicate principal and interest payments, and they may be accrued or paid current (or via some combination). Preferred equity investments may be accounted for as a loan or equity investment depending on the legal preferred equity structure utilized.
- **Real Estate Owned (REO):** REO property refers to real estate acquired by the lender following foreclosure or a similar transaction (including a deed-in-lieu). This typically occurs after a borrower default on a loan, resulting in the lender enforcing its remedies and taking title to the real estate collateral asset(s).
- **CRE Debt Securities:** Securities backed by commercial mortgage loans that may be traded publicly or privately. They include commercial mortgage-backed securities (CMBS), collateralized loan obligations (CLOs), collateralized debt obligations (CDOs), and other commercial real estate securities.
- **B-Piece:** The most junior set of bonds in CMBS securitization. The B-Piece generally refers to the below investment grade set of bonds.
- **Participating Mortgage:** A participating mortgage allows the lender to have participatory equity rights through a share of increases in property level income and/or increases in residual property value over the loan balance or original property value at the time of loan funding. A participating mortgage generally consists of four parts: (1) principal, (2) "base interest" payments at the contractually stated fixed or floating rate; (3) "contingent interest" payments for which the lender is paid a percentage of property net operating income or cash flow after debt service; and (4) "additional contingent interest," which is in the form of lender participation in the appreciation in the value of the underlying property.
- **Non-Participating Mortgage:** An investment secured by a lien on real estate that generally entitles the lender to payments of contractual principal and interest that do not increase based on the underlying operating results of the property.
- **Accrued Non-Current Interest:** Certain loans may divide the contractual interest rate into two components. A portion of the interest is due on periodic dates currently and paid in cash or via interest reserve, while the remaining portion of the interest is accrued / deferred until the maturity date of the loan.

Certain terms used herein are defined as follows:

- **Fund:** A vehicle where capital is pooled together and managed as a single entity with a common investment objective. For purposes of this Manual, a Fund includes commingled funds, co-investments, joint ventures and single-investor investment accounts. A fund has one or more investments and may include real estate equity and real estate debt investments.
- **Debt Investment:** A loan (such as a mortgage, mezzanine loan, debt security, and preferred equity) that is secured, directly or indirectly, by a commercial real estate property or properties. May also be referred to as "loan investment."
- **Financial Accounting Standards Board (FASB):** The Financial Accounting Standards Board is the designated organization for establishing standards of financial accounting and reporting. Those

standards govern the preparation of financial reports. The FASB is officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants.

- **Accounting Standards Codification (ASC):** Codification of FASB standards that comprise GAAP. FASB ASC Manual is used informally to refer to the current FASB standards under the ASC and ASU.
- **Accounting Standards Update (ASU):** A document issued by the FASB in the United States, which details changes to the accounting standards codification and guidance on selected accounting policies set out by FASB.
- **American Institute of Certified Public Accountants (AICPA):** The AICPA represents the CPA profession nationally regarding rulemaking and standard-setting and serves as an advocate before legislative bodies, public interest groups, and other professional organizations. The AICPA develops standards for audits of private companies and other services performed by CPAs.
- **Accounting principles generally accepted in the United States of America (US GAAP or GAAP):** The United States accounting standards are established by the FASB. GAAP are the standards, conventions, and rules that accountants follow in recording and summarizing transactions and in preparing financial statements. US GAAP is a foundational standard of the Reporting Standards.
- **Global Definitions Database (GDD):** A common set of terms and meanings for the non-listed, private real estate industry created by a global alliance consisting of ANREV (Asian Association for Investors in Non-Listed Real Estate Vehicles), INREV (European Association for Investors in Non-Listed Real Estate Vehicles), and the Reporting Standards. Link to the GDD: www.reportingstandards.info/global-standards.
- **Global Investment Performance Standards (GIPS®):** The GIPS® standards are applied on a firm-wide basis and are ethical standards for calculating and presenting investment performance to prospective clients and prospective investors based on the principles of fair representation and full disclosure. The GIPS® standards (www.gipsstandards.org) are promulgated by and are a registered trademark owned by the CFA Institute. The GIPS® standards are one of the foundational standards of the Reporting Standards.
- **Commercial Real Estate Finance Council (CREFC):** CREFC is the trade association for the multi-trillion commercial real estate finance industry. CREFC and NCREIF together created the NCREIF/CREFC Open-End Debt Fund Aggregate.
- **Open End Debt Fund Aggregate (Aggregate):** The NCREIF/CREFC Open-End Debt Fund Aggregate is a fund-level aggregate comprising open-end funds that provide credit and financing to borrowers who own commercial real estate. The Aggregate contains funds with various strategies and styles, as reported by the managers. The Aggregate is not a benchmark; however, it is a step toward the goal of creating a more focused index/benchmark of open-end debt funds with a similar strategy around risk/return.

The Manual may contain additional words in capital letters that are defined in the [Global Definitions Database](#) or within the Manual itself.

ACCOUNTING

Background

As noted in the Reporting Standards, Volume I, Fair Value Generally Accepted Accounting Principles (FV GAAP) is the basis for fair value accounting used to report by the institutional real estate investment community to both tax-exempt investors (e.g., pension funds) and taxable investors (e.g., funds and international investors). It is the intent of this Manual for users to prepare financial statements that comply with GAAP, while supporting the Reporting Standards in a consistent and transparent manner. Furthermore, the topics within the Manual are generally focused on debt funds and investments that are reported at fair value in accordance with relevant GAAP guidance. Fair value across debt funds and investments is often promulgated by ASC 946, *Investment Companies*, or ASC 960, *Accounting and Reporting by Defined Benefit Pension Plans*.

Where applicable guidance is not specified within authoritative GAAP, non-authoritative guidance may be applied. The appropriateness of the sources of non-authoritative guidance depends on its relevance to particular facts and circumstances, and the specificity of the guidance to the facts and circumstances. The lack of applicable authoritative accounting guidance specific to the institutional real estate investment industry has caused certain fair value accounting practices and alternative presentations - prevalent in the industry - to constitute non-authoritative GAAP. These practices are included in the Manual.

This Manual and related appendices are not intended to address a comprehensive application of GAAP to the preparation of financial statements. Users of this Manual and the related appendices should consider all recently issued ASUs, whether included or excluded in this Manual to determine their effect on the preparation of financial statements.

Relevant accounting guidance contained in authoritative FASB ASC topics have been considered in the development of this Manual.

FUND LEVEL ACCOUNTING

2.01 Introduction

2.01(a) The Fund Level represents the aggregation of all investments (a reporting entity may hold one investment or multiple investments). In addition, it includes other assets, liabilities, income and expenses recorded at the fund level, as well as fund level debt that is not specifically allocated to a single investment or group of investments.

2.01(b) As detailed below, the Operating Model and the Non-operating Model provide alternative presentations while generally resulting in the same net asset values; diversity exists when determining which model is presented. The determination of the appropriate fair value reporting presentation to use is made by the entity's management based on a review of the relevant accounting literature. Reporting Standards require FV GAAP through application of either one of these presentations.

2.01(c) The information contained in this section is separated based upon the applicable reporting presentation.

2.02 Fair Value Net Asset Value (FV NAV)

2.02(a) FV NAV represents the fair value of the Fund's investment in the underlying investments owned (i.e., the fair value of the investments and other assets in excess of the fair value of the liabilities). While not all assets and liabilities under GAAP are required to be measured at fair value, the investments make up the vast majority of the Statement of Net Assets and both the Operating Model and Non-operating Model presentations require investments to be reported at fair value in accordance with ASC 820. Therefore, the FV NAV reported under both the Operating Model and Non-operating model will generally be the same.

2.03 Overview of Operating and Non-operating Presentations

2.03(a) Operating and Non-Operating Model

This Manual provides a consistent set of accounting standards for the institutional real estate and debt investment community. Entities investing in real estate and debt investments generally present their financial statements using the Operating Model (i.e., a gross presentation) or Non-operating Model (i.e., a net presentation). Fund management makes an accounting policy election to determine which presentation to utilize. Refer to Sections 2.04 and 2.05 below for further detail on the Non-operating and Operating Models, respectively.

- Note: This debt fund manual will outline and provide information for both the operating and non-operating model basis of presentation. For those debt funds that do not own any real estate investments, the expectation would be that both sets of financial statements are very similar in presentation given the nature and accounting treatment for debt investments. Primary drivers for the consistency in presentation for debt funds under both the operating and non-operating models are as follows:
 - The concept of consolidation, whereby underlying investment level operations are presented gross or net based on the consolidation conclusion, is not a primary driver

of any differences in presentation for debt investments given there typically is not a significant amount of investment level activity. This contrasts with real estate equity investments, where underlying investment level activity (rental revenues and property operating expenses, property level interest expense, etc.) and other investment level costs are shown on a gross basis versus net basis, driving a more significant difference in presentation.

- The pattern of revenue recognition for debt funds on a gross or net basis would generally be consistently applied. For real estate equity investments, the pattern of revenue and expense recognition can differ on a gross versus net basis.

The Reporting Standards require fair value financial information for all investments. The FV NAV of a fund should generally be the same under either reporting presentation. Varying interpretations of these two presentations exist. Other bases of presentation that may be used in the global real estate industry are not addressed within this Manual. The determination of the appropriate model to be used by a fund is made by fund management.

2.03(b) The fundamental premise for fair value-based accounting presentations is based on existing GAAP, which requires that certain investments held by tax-exempt investors, including defined benefit pension plans and endowments, are reported at fair value. This presentation is supported by FASB ASC Topic 960, *Plan Accounting — Defined Benefit Pension Plans* (ASC 960), and Governmental Accounting Standards Board (GASB) Codification Section Pe5, *Pension Plans-Defined Benefit*, and Section Pe6, *Pension and Other Postemployment Benefit Plans — Defined Contribution*, and is referred to throughout the Manual as the Operating Model.

2.03(c) Over the years, investments made by fund managers have become increasingly complex, and it has become apparent that many of these funds have attributes similar to those of an “investment company,” as set forth in ASC Topic 946, *Financial Services — Investment Companies* (ASC 946), with significant content derived from the AICPA Audit and Accounting Guide — Investment Companies, (the “AICPA Investment Company Guide”). This authoritative guidance also supports the use of a fair value accounting presentation for investment companies when a fund meets the requirements to report as an investment company under ASC 946.

2.03(d) GAAP hierarchy is defined in two levels known as authoritative guidance and non-authoritative guidance. All authoritative GAAP is codified within a single source known as the ASC. Authoritative guidance takes precedent over non-authoritative guidance. However, non-authoritative guidance is applied for a particular transaction, item, or event when applicable guidance is not specified within authoritative guidance. As indicated above, ASC 960 is the authoritative accounting source for certain tax-exempt investment vehicles that hold real estate investments, and ASC 946 is the primary source for entities that satisfy the criteria of an investment company. Given the lack of specific authoritative GAAP applicable to a single model for the institutional real estate investment industry, a dual-reporting model prevails in the industry.

2.03(e) Common Fund Structures

Many funds adopt complex fund structures to increase flexibility in pricing, tax synergies, and access to alternative distribution channels for their shares. A master-feeder fund structure typically comprises one or more feeder funds that invest substantially all their assets in a master fund. External

investors hold equity interests in the feeder funds, while the master fund pools assets from all its feeder funds and invests them in accordance with its investment strategy. Under current SEC views, the annual reports of feeder funds should contain two sets of financial statements: one for the master fund and the other for the specific feeder fund. Another common fund structure is fund-of-funds, which are investment companies that invest in other investment companies. A typical fund-of-funds structure involves investments in more than one investee fund. A master-feeder structure can also be viewed as a fund-of-funds, but the feeder usually invests substantially all its assets into one investee fund (the master fund) and the master fund invests in investee funds.

As noted in the SEC's Investment Management Guidance Update No. 2014-11, in the circumstances of both master-feeder funds as well as fund-of-funds, generally, the SEC staff has taken the position that non-consolidated financial statements are most meaningful. For additional guidance around these structures and financial statement presentation, see Chapter 5 of the AICPA Investment Company Guide.

2.03(f) Fund Level Organizational Costs

Newly formed investment companies typically incur organization costs when forming the legal entity to conduct business under the entity's domicile. In accordance with ASC 946, and under ASC paragraph 720-15-25-1, organization costs should be expensed as incurred.

Note: There may be funds that maintain offering documents or limited partnership agreements that allow the fund to capitalize and amortize initial organization costs over a pre-determined time period (i.e., five years). This could result in differences between Trading NAV (per governing documents) and FV NAV for the fund. This Manual recommends that financial statement preparers discuss this scenario, when applicable, with their external auditors and other advisors.

2.03(g) Offering (Syndication) Costs

A newly formed entity may incur offering or syndication costs in connection with raising capital for a Fund. In accordance with ASC 946, offering costs of closed-end funds should be charged to equity/capital. For open-end funds, offering costs should be treated as a deferred charge and deferred until the beginning of operations and amortized to expense over 12 months.

2.04 Non-operating Model

2.04(a) Introduction

Many investment funds that satisfy the criteria of an Investment Company in accordance with ASC 946 may prepare financial statements under the Non-operating Model. Financial statements prepared under the Non-operating Model report all investments at fair value on a recurring basis.

The Non-operating Model generally utilizes a "net" presentation. The Statement of Net Assets presents investments as a single line item, by presenting the fund's fair value of its total debt investments. The Statement of Operations generally reports investment income from debt investments on an accrual basis. If the Fund has any real estate investments (i.e. through foreclosure), the Statement of Net Assets presents the equity investment as a single line item by presenting the fund's fair value of its net equity position. Investment income will represent the cash that the fund receives as Income distributions from real estate equity investments. Any undistributed profits from

the investment's operations are reported through change in unrealized gain or loss when the fund fair values the net working capital of its underlying investment in real estate.

2.04(b) Election of the Fair Value Option under ASC 825-10

The Fair Value Option under ASC 825-10 permits entities to elect a one-time irrevocable option to measure financial instruments including, but not limited to, notes payable and portfolio level debt at fair value in accordance with ASC 820 on an instrument-by-instrument basis. Further information can be found in Section 3.08.

2.04(c) Consolidation - Applicability of ASC 810

ASC 810-10-15-12d states, "Except as discussed in paragraph 946-810-45-3, an investment company within the scope of Topic 946 shall not consolidate an investee that is not an investment company." Rather, those controlling financial interests held by an investment company shall be measured in accordance with guidance in Subtopic 946-320, which requires investments in debt and equity securities to be subsequently measured at fair value.

The exception referred to above, discussed in paragraph 946-810-45-3, refers to instances in which the investment company has an investment in an operating entity (i.e., does not meet the criteria of an investment company under ASC 946) that provides services to the investment company, for example, an investment adviser or transfer agent. In those cases, the purpose of the investment is to provide services to the investment company rather than to realize a gain on the sale of the investment. If an individual investment company holds a controlling interest in such an operating entity, consolidation is appropriate.

Additionally, if an intermediate entity such as a blocker corporation or REIT is wholly owned by an investment company and acts as an extension of the investment company's operations and to facilitate the investment strategy, it could be considered for consolidation in accordance with ASC 810.

See section 2.05(c) for additional information.

2.04(d) Consolidation - Applicability to Investment in an Investment Company

GAAP is silent on the topic of when it is appropriate for an investment company to consolidate another investment company in which it holds a controlling financial interest. Accordingly, diversity in practice exists in this area. Refer to the Basis for Conclusion in ASU 2013-08 (BC 62 to 65) for further information on the concerns of the board and stakeholders when they contemplated this issue as part of the Investment Company project.

2.04(e) Equity Method

Under ASC 946, for the non-operating model an investment company cannot apply the equity method of accounting to a noncontrolling interest in another investment company. Such an investment must be measured by an investment company at fair value in accordance with ASC 946-320.

2.04(f) Revenue Recognition

As mentioned above, interest income from debt investments is generally accrued on a monthly basis. For real estate investments, revenue is typically recognized when dividends are received from the investee to the extent of undistributed earnings by the investee (e.g., tax basis earnings, GAAP earnings). Dividend income is presented as a component of net investment income. In this presentation, any undistributed earnings by the investee are part of the fair value of the investee and therefore are reflected in the unrealized gain or loss.

Changes in fair value from period to period are reported as changes in unrealized gain or loss on the statement of operations, which is presented separately from net investment income. These gains or losses are realized upon the disposal of an investment.

2.05 Operating Model

2.05(a.1) Introduction

Under the Operating Model, the Statement of Net Assets presents the gross assets and gross liabilities of the fund's investments as separate line items. The Statement of Operations presents the gross revenue and expenses. Note that consolidation guidance per ASC Topic 810, *Consolidation*, may be considered such that any Equity Method Investments would be presented as an asset balance within a single financial statement line item.

2.05(a.2) Entities that report under ASC 960 are required to follow ASC 810, *Consolidation* (ASC 810), and ASC 323, *Investments – Equity Method and Joint Ventures* (ASC 323). As indicated above, some entities that report under ASC 946 may elect to present their financial statements under the Operating Model. It is best practice that those entities that present their financial statements based on the Operating Model under ASC 946 consider the consolidation guidance in ASC 810 in determining an accounting policy, including an evaluation of whether or not the investee is a variable interest entity (VIE), to determine whether it has a controlling financial interest in the investee and therefore whether consolidation under the operating model is appropriate.

2.05(a.3) Investments must be reported at fair value in accordance with ASC 820. The objective of the Statement of Operations is to present the increase or decrease in the net assets resulting from the entity's investment activities.

2.05(b) Election of the Fair Value Option Under ASC 825-10

The Fair Value Option under ASC 825-10 permits entities to elect a one-time irrevocable option to measure financial instruments including, but not limited to, portfolio level debt at fair value in accordance with ASC 820 on an instrument-by-instrument basis.

2.05(c) Consolidation: Applicability of ASC 810

2.05(c.1) Under the Operating Model, a fund should generally assess consolidation under ASC 810. Investments may include direct investments in real estate and debt, as well as holdings of controlling equity interests in separate legal entities, which invest in real estate assets. The fund manager may consider existing authoritative guidance within ASC 810 to determine whether an investment in an investee (e.g., joint venture) represents a VIE to be assessed for consolidation under the VIE model,

or whether the investment in an investee should be consolidated in accordance with the voting interest entity model.

2.05(c.2) Under the scope exception referred to in ASC 810-10-15-12(d), an investment company technically should not consolidate an investee that is not an investment company unless the investee is an operating entity that provides services to the investment company. However, it is suggested that a fund that qualifies as an investment company and prepares its financial statements under the Operating Model perform the consolidation analysis under ASC 810, including an evaluation of whether the investee is a VIE, to determine whether it has a controlling financial interest in the investee and therefore whether consolidation under the Operating Model is appropriate.

To the extent that ASC 810 is not followed as a result of the preceding paragraph, preparers should consider adopting and applying a consistent accounting policy, for example, by looking at their ownership percentage, rights of the different partners, etc., to determine the most appropriate and meaningful presentation for presenting the investment on a gross basis (akin to a consolidated JV) or net basis (akin to an equity method investment).

2.05(d) Consolidation: Accounting

2.05(d.1a) Entities that report under ASC 960 are required to follow ASC 810. While ownership of a greater than 50% voting interest in an investment is generally considered to be an indication of control, many joint venture investments contain complex governance arrangements that make assessments of control difficult. A multitude of factors must be considered in deciding whether consolidation of an investee is appropriate, including a determination of whether or not the investee is a VIE. If investments in entities are not deemed to be controlling interests, the equity method of accounting should be followed if the “significant influence” criterion is met in accordance with ASC 323.

2.05(d.1b) It is suggested that entities that report as investment companies under ASC 946 and utilize the Operating Model presentation follow ASC 810. Although ASC 946-323-45-1 precludes the use of the equity method of accounting for investment companies, given the use of the operating model presentation for many real estate funds, it is best practice to apply judgment and follow ASC 810 as outlined above. If investments in entities are not deemed to be controlling interests, these investments should be accounted for as investments in non-consolidated joint ventures, in a similar manner to ASC 323.

2.05(d.2) Under the Operating Model, investments either owned directly by a fund or reported through the consolidation of an investee are recorded on the Statement of Net Assets at their fair value. If the investee is less than 100% owned, a corresponding credit to noncontrolling interest is recorded at fair value for the noncontrolling interest in the investment. The difference between fair value and the adjusted cost basis of an investment is the unrealized gain or loss associated with the asset and liability, and if applicable, the noncontrolling interest. Changes in fair value from period to period are reported as changes in unrealized gain or loss on the statement of operations, which is presented separately from net investment income. These gains or losses are realized upon the disposal of an investment.

2.05(d.3) The consolidation process outlined in ASC 810 requires that the noncontrolling interest continues to be allocated its share of losses even if that allocation results in a deficit noncontrolling interest balance. This standard also requires the acquirer to measure a noncontrolling interest in the acquiree

at its fair value at the acquisition date. The noncontrolling interest would continue to be recorded at fair value assuming a hypothetical liquidation at fair value. An entity should perform an assessment of its noncontrolling interest's rights and consider whether the noncontrolling interest is a redeemable equity security within the scope of ASC 505-10-50.

2.05(e) Accounting for Investments in Non-consolidated Joint Ventures

Investors with non-controlling investments in investees (e.g., partners in joint ventures) accounted for under the equity method of accounting should record as investment income only their share of the investee's net income or loss, determined in accordance with GAAP on the fair value basis of accounting. The investment is recorded at fair value with the difference between the fair value and the basis recorded as an unrealized gain or loss. This amount is exclusive of items such as depreciation, amortization, and deferred rent, but would include promote reallocations, as appropriate. ASC 970-323-35-17 suggests that stipulated income allocation ratios should not be used if cash distributions and liquidating distributions are determined on some other basis (i.e., income should be allocated first on behalf of any preferred returns or interest, and then to the respective partners in proportion to their contractual ownership interests, etc.). Intercompany items, such as interest on loans by an investor to an investee should be eliminated to the extent of the investor's economic interest in the venture, as if the investee were consolidated.

For all investment companies that follow ASC 946 and utilize the Operating Model presentation, investments in non-consolidated joint ventures are initially recorded at the original investment amounts, are subsequently adjusted for the entity's share of undistributed earnings and losses (including unrealized and realized gains and losses) from the underlying entities from the dates of formation, are increased by additional contributions, and are reduced by distributions received.

2.06 Capital / Equity Transactions

2.06(a) Contributions/Reinvestments

Entities shall record capital contributions and reinvestments (for open end funds) as of the date required by any fund governing documents. Cash received for capital contributions before the required date shall be recorded as an advance capital contribution liability and subsequently reclassified to equity upon the required capital call date.

2.06(b) Distributions/Dividends

Entities should record distribution liabilities on the legal date of declaration in accordance with fund governing documents. Open-end funds may record the liability on the ex-dividend date to properly state the net asset value at which sales and redemptions are made. Closed-end funds typically record the distributions when the cash distribution is made.

2.06(c) Redemptions

Open-end funds with redemption provisions shall record redemptions in accordance with fund governing documents and evaluate if there are any redemption liabilities to be recorded prior to payment based on these legal terms.

2.07 Accounting for Uncertainty in Income Taxes

ASC 740, *Income Taxes*, provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken in the course of preparing a fund's tax returns to determine whether tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. Many funds are held through transparent or flow through entities so that the taxable income is reported on separate tax filings including investor K-1s. Therefore, the tax impact of certain positions (including the character of income and gains, investor qualifications/status, classification of income for The Employee Retirement Income Security Act of 1974 (ERISA) reporting, etc.) may or may not affect the GAAP basis financial reporting. In preparing financial statements, tax positions to be reviewed and analyzed may include non-transparent entities at or below the funds, international investments subject to tax in other jurisdictions, and other special considerations including but not limited to the following:

- Tax Exempt Entity Status
- REIT Status
- State and Local Tax Determinations/Nexus
- Unrelated Business Taxable Income
- International Tax Treaties

INVESTMENT LEVEL ACCOUNTING

3.01 Introduction

3.01(a) This section outlines the accounting policies to be followed for accounting at an investment level for interests in various debt investments on a fair value basis.

3.01(b) Debt investments are made using various investment structures. Included in this section is guidance relating to the following investment structures:

- Non-participating and participating mortgage loans receivable, including senior and junior mortgages, A-notes, B-notes, and accrued non-current interest mortgage loans.
- Preferred equity investments and mezzanine loans
- Real estate owned (REO)
- Debt securities, including B-piece securities
- Financing alternatives (liabilities)

3.01(c) The guidance throughout this Manual will reference certain sections of the FASB ASC Manual. Relevant ASC sections referenced throughout include:

- ASC 310-20, *Nonrefundable Fees and Other Costs*: provides guidance on the recognition, measurement, derecognition, and disclosure of nonrefundable fees, origination costs, and acquisition costs associated with lending activities and loan purchases.
- ASC 326, *Financial Instruments – Credit Losses*: provides guidance on how an entity should measure credit losses on financial instruments

- ASC 810, *Consolidation*: provides guidance on the identification, consolidation, and disclosure of entities that are controlled by the reporting entity through means other than voting rights, such as special purpose entities (SPEs) or variable interest entities (VIEs).
- ASC 820, *Fair Value Measurement*: provides guidance around fair value measurements, including (1) defining fair value; (2) establishing a framework for measuring fair value; and (3) outlines required disclosures about fair value measurements.
- ASC 825-10, *Financial Instruments - Overall*: provides guidance around the recognition and measurement of financial assets and liabilities, including certain origination costs.
- ASC 835-30, *Imputation of Interest*: provides guidance for the appropriate accounting when the face amount of a note does not reasonably represent the present value of the consideration given or received in the exchange.
- ASC 860, *Transfers and Servicing*: provides guidance on the recognition, derecognition, and measurement of transferred financial assets and the servicing rights and obligations related to those assets
- ASC 946, *Financial Services – Investment Companies*: provides incremental industry-specific guidance for the entities that meet the assessment of investment company status.

3.02 Investments in mortgages and other loans receivable: General discussion

3.02(a) There are primarily two types of mortgage loan investments held by funds: non-participating and participating mortgage loans. A non-participating mortgage loan is an investment that generally entitles the lender to payments of contractual principal and interest that do not increase based on the underlying operating results of a property.

3.02(b) A participating mortgage is an investment that generally consists of four parts: (1) principal; (2) "base interest" payments at contractually stated fixed or floating rates; (3) "contingent interest" payments for which the lender is paid a percentage of property net operating income or cash flow after debt service; and (4) "additional contingent interest," which is in the form of lender participation in the appreciation in value of the underlying property.

3.02(c) Usually the loan terms of a participating mortgage are set somewhat more favorably to the borrower than those of a non-participating mortgage on the same property. Common terms on a participating mortgage historically include high loan-to-value ratios, base interest rates that are lower than comparable non-participating mortgages, and the occasional structure that may allow for a deferral of interest between the basic interest coupon and some lower "pay rate," typically during development and lease-up. The deferral may be paid when cash flow from net operating income is sufficient or may be added to the loan balance and be payable in full only at maturity.

3.02(d) The contingent interest component of a participating mortgage often represents a lender's right to a portion of the adjusted net cash flow generated by the collateralizing property. Typically, certain expenses such as, but not limited to, legal or other professional fees related to ownership of the property (i.e., not directly related to the operating activities of the property) are not permitted as deductions from gross income for determining the amount in which the lender participates in contingent interest. Often a reserve for replacements, or for tenant improvements, leasing commissions, and capital expenditures, is set aside from net operating income before the lender participates in the remainder.

3.02(e) The additional contingent interest or equity conversion component often specifies a hurdle rate that the lender is entitled to receive from basic interest, contingent interest and additional contingent interest before the borrower participates in any additional upside (i.e., appreciation or proceeds from sale).

3.03 Accounting for non-participating mortgage loans receivable

3.03(a) **Measurement:** Non-participating mortgage loans receivable should be carried on the statement of net assets at their fair value. The difference between fair value and the adjusted cost basis of a mortgage loan is the unrealized gain or loss on investment. Valuation changes in fair value from period to period are reported as unrealized gain or loss on the statement of operations and are presented separately from net investment income. Such unrealized gains or losses are realized upon the disposition of the investment either through a sale of the mortgage note receivable (in accordance with the guidance in ASC 860, *Transfers and Servicing*) or through paydown of the mortgage note receivable by the borrower at maturity (or prior to maturity in the case of early prepayments).

3.03(b) **Loan acquisition and origination costs (expense):** Loan origination costs, as defined by ASC 310-20-20, represent costs associated with originating a loan.

There are two methodologies that may be applied for the subsequent treatment of loan origination costs within the statement of operations:

- Upfront expense recognition: For mortgages held at fair value, loan origination costs shall generally be expensed as incurred¹.
- Amortization over life of the loan: Although it may not be general industry practice for certain fair value reporting entities, direct loan costs and loan origination fees (See Section 3.03(c) below) may be offset and only the net amount is deferred and amortized over the life of the related loan using the interest method described in ASC 835. The objective of the interest method is to arrive at periodic interest income, net of fees and costs, that reflects a constant effective yield on the net investment in the mortgage loan receivable.
 - Note: The amortization of these costs for BDCs and investment companies was also discussed as part of an AICPA Expert Panel, in which the panel acknowledged that an application of guidance in accordance with ASC 310-20 to defer the loan costs over the life of the loan by analogy is reasonable.

Other lending-related costs should generally be expensed in the period incurred. In certain instances, there may be acquisition costs incurred if a fund were to acquire a mortgage loan receivable versus originating the loan. Other acquisition costs could represent fees paid to investment managers and/or other professional fees associated with closing of a net investment. Under Topic 946, there is diversity in practice if these costs are expensed directly to earnings or as an unrealized loss, as these costs do not have incremental fair value.

¹ ASC 825-10-25-3

3.03(c) **Origination fees (income):** Origination fees represent fees generally collected up-front from borrowers that generally are determined based on a percentage of the total loan commitment, in accordance with the loan agreement terms.

ASC 946 does not provide specific guidance pertaining to fee income associated with loan originations. As a result, there are two methodologies that could be considered when determining the appropriate accounting for such fees.

- Recognized as income when received: It is common practice and recommended that fair value funds recognize origination fees when collected, typically at investment inception, in accordance with the terms of the related investment agreements. This is consistent with guidance per ASC 825-10-25-3 (as outlined above) for investments held at fair value.
- Capitalized and deferred, net of origination costs: As outlined above within Section 3.03(b), certain entities may net origination fees with origination costs and defer over the life of the related loan under the effective interest method in accordance with ASC 310-20.

Note: Certain fair value funds may elect to capitalize and amortize loan origination fees over the life of the loan. In these instances, the preparers of the financial statements may choose to analogize the accounting treatment to the treatment of interest for premiums or discounts. Section 2.122, *Interest*, of the *AICPA Audit and Accounting Guide: Investment Companies* dated August 1, 2023 (the Investment Company Guide) outlines the following:

- As stated in FASB ASC 946-320-35-20, premiums and discounts should be amortized using the interest method. FASB ASC 835-30-35-2 states that the difference between the present value and the face amount of the net investment should be treated as a discount or premium and amortized as interest expense or income over the life of the note in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period.

3.03(d) **Fee income:** The loan agreement's contractual terms may provide additional fees and charges to the borrower to pay the fund, which are recorded as fee income on the fund's statement of operations.

These additional fees may include loan modification fees, late charge fees, non-refundable underwriting or due diligence fees (which are usually collected upfront upon executing the term sheet with the borrower), and exit fees. Exit fees are similar to origination fees, whereby a financing fee is negotiated and embedded within the loan agreement; however, its payment is deferred until a later date. Unlike a prepayment penalty, exit fees are received not only if the loan is paid off early but also when it is paid off at maturity. Although these additional fees may be negotiated and embedded within the loan agreement, they may be subject to further renegotiation as the loan nears maturity or repayment.

ASC 946 does not provide specific guidance pertaining to loan fee income. As a result, two methodologies could be considered when determining the appropriate accounting for such fees similar to the origination fee as discussed above in section 3.03(c) by either recognizing the income upon receipt of the exit fee payment or any other fee income (best practice for fair value funds) or accruing the exit fee income over the life of the loan.

When making the determination on treatment, a distinction between service-based fee income (likely to be recognized as incurred) versus yield enhancement (likely to be deferred and amortized) may be a critical component and judgment from an accounting treatment perspective.

3.03(e) **Interest receivable:** The carrying amount of interest receivable currently due (generally one year or less) are generally considered to approximate fair value. Therefore, for fair value reporting, interest receivable currently due may be reported at its undiscounted amount provided that the results of discounting the carrying amount would not be material and that receipt can reasonably be assured.

3.03(f) **Interest income:** Interest income associated with any non-participating mortgage loan receivable is reported in net investment income. The recognition of base interest income should be on an accrual basis in accordance with the contractual terms of the loan unless the loan is considered non-performing under GAAP. For mortgage loans with fixed and determinable rate changes, base interest income should be accounted for when the change contractually occurs rather than using an effective interest or straight-line method.

For non-performing loans (e.g., the borrower is unable to fulfill its payment obligations), the accrual of interest income is generally suspended when the collection of interest is less than probable or the collection of any portion of the loan's principal is doubtful. Although GAAP does not directly address how a creditor should recognize, measure, or display interest income on a non-performing loan, accounting guidance² allows a creditor to use existing methods of recognizing interest income. This may include:

- Cash-basis method: Interest income is recognized under a cash method whereby cash payments of interest received are recorded as income.
- Cost recovery method: Any interest or principal received is recorded as a direct reduction of the recorded investment in the loan.

3.03(g) **Fair Value** measurement: Valuation adjustments are reported as unrealized gains and losses. The fair value of a non-participating mortgage loan and any accrued non-current interest may be based on the discounted value of the total future expected net cash flows.

The selection of an appropriate discount rate should reflect the relative risks involved and interest rates charged for similar receivables. The determination of fair value must also take into consideration the underlying collateral, credit quality of the borrower, and any related guarantees, as well as the specific terms of the loan agreement, and if applicable, the most recent covenant report(s).

Refer to the Valuation Section for further details regarding valuation considerations, methodologies and other pertinent information impacting the valuation of debt fund investments.

3.03(h) Modification of mortgage terms should generally be accounted for through an adjustment of value and recorded through unrealized gain or loss in the statement of operations.

² ASC 310-10-35-53

3.04 Accounting for participating mortgage loans receivable

3.04(a) Because of the participation feature inherent in these loans, and the fact that the lender usually provides a significant portion, if not all, of the funds necessary to acquire, develop, or construct the property, accounting for participating mortgages should be determined based upon the following guidance, as applicable.

A participating mortgage may have the characteristics of either a loan, a noncontrolling equity investment in a joint venture, or a controlling interest subject to consolidation for accounting purposes, depending on the facts and circumstances³.

3.04(b) Participating mortgages not considered joint ventures or investments in real estate in accordance with ASC 310 should also be carried on the balance sheet at their fair value. The difference between fair value and the adjusted cost basis of a mortgage loan is the unrealized gain or loss associated with the asset. Changes in fair value from period to period are reported as changes in unrealized gain or loss on the statement of operations, which is presented separately from net investment income. Such unrealized gains or losses are realized upon the disposition of the investment, either through a sale of the mortgage note (in accordance with the guidance in ASC 860) or through paydown of the mortgage note by the borrower at maturity (or prior to maturity in the case of early prepayments).

3.04(c) **Initial measurement (including loan origination costs, loan origination fees, fee income):** Refer to Section 3.03(b), 3.03(c) and 3.03(d) for details and discussion on the accounting for these items.

3.04(d) **Interest income:** Interest income associated with any participating mortgage loan is reported in net investment income. The recognition of base interest income should be based on an accrual basis in accordance with the contractual terms of the loan unless the loan is considered non-performing under GAAP. For mortgage loans with fixed and determinable rate changes, interest income should be accounted for based on when the change contractually occurs rather than using an effective interest or straight-line method.

For non-performing loans, generally the method for interest recognition is the cash method where payments of interest received are recorded as interest income provided that the amount does not exceed that which would have been earned based on the contractual terms of the loan.

Contingent interest income from operating cash flows is also recorded by the lender as part of net investment income upon the resolution of the contingency or the receipt of cash. Additional contingent interest received from disposal or refinancing of the underlying property is recorded as part of realized gains and losses.

3.04(e) **Fair value measurement:** The fair value of a participating mortgage investment is equal to the discounted value of the total future cash flows expected from the investment. The value of the mortgage loan may not exceed the value of the underlying real estate plus any qualifying guarantees.

The discount rate used in the valuation should reflect the risk/return characteristics of the participating investment structure. The valuation may be performed with different discount rates for the different sources of the anticipated cash flows; a “debt” rate may be associated with the nonparticipating cash flows, and an “equity” rate may be associated with the participation cash flows.

³ ASC 310-10-25, paragraphs 19-20

In all cases the economic substance of the transaction must be taken into account in determining the value of the investment.

Refer to the Valuation Section for further details regarding valuation considerations, methodologies and other pertinent information impacting the valuation of debt fund investments.

3.04(f) **Modifications:** Modification of mortgage terms should be accounted for through an adjustment of value and recorded through unrealized gain or loss in the statement of operations.

3.05 Accounting for preferred equity investments

3.05(a) **Preferred equity:** A preferred equity investment is often facilitated through the fund acquiring an ownership interest in an underlying joint venture with a third-party owner or operator. The terms of the joint venture agreement will dictate the fund's underlying investment and related accounting treatment. In certain instances, the investment may be reported as an investment in an underlying joint venture, in which the fund's investment represents a preferred return on contributed equity. In many instances, the fund will not have participating rights in the income or distributions of the underlying properties within the joint venture above the preferred return. The income or preferred return on investment would be recorded on an accrual basis in accordance with the terms of the preferred equity agreement (i.e., monthly/quarterly).

In some cases, the preferred equity investment may be structured as a debt investment based on the terms of the legal agreement. In these scenarios, income would be recognized in accordance with the terms of the investment and corresponding interest rate.

The nature and structure of the preferred equity investment (investment in a joint venture or debt investment) will dictate the financial statement presentation within the statement of net assets. For those investments deemed to be an investment in an underlying joint venture, the user can refer to the existing NCREIF PREA Fair Value Accounting Manual for additional detail. For those investments deemed to be a debt investment, refer to section 3.03 above for additional information.

3.05(b) **Consolidation:** Depending on the nature of the preferred equity investment and the basis of accounting that is applied at the fund level (gross - operating versus net - non operating), a consolidation analysis may be necessary to evaluate whether the fund has control of the underlying joint venture in instances when the investment is deemed to be through an underlying joint venture. If the operating model is utilized to present the fund financial statements, this may be an appropriate step. Refer to the Fair Value Accounting Manual for further consolidation considerations for real estate joint ventures.

For preferred equity investments structured as a debt investment, or when the financial statements are presented in accordance with ASC 946 on a net basis, there is no requirement to perform a consolidation analysis.

3.06 Real estate owned (REO) & REO transactions

3.06(a) When a fund receives physical possession of real estate property that collateralized a mortgage loan (through an in-substance repossession, deed-in-lieu or foreclosure), there should be consideration given to the change in the form of its investment.

A fund is considered to have received physical possession (resulting from an in-substance repossession, deed-in-lieu or foreclosure) of real estate property collateralizing a mortgage loan only upon the occurrence of either of the following:

- The fund obtains legal title to the real estate property upon completion of a foreclosure. A fund may obtain legal title to the real estate property even if the borrower has redemption rights that provide the borrower with a legal right for a period of time after a foreclosure to reclaim the real estate property by paying certain amounts specified by law.
- The borrower conveys all interest in the real estate property to the fund to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The deed in lieu of foreclosure or similar legal agreement is completed when agreed-upon terms and conditions have been satisfied by both the borrower and the fund.

In many legal jurisdictions, a borrower has a legal right to reclaim a foreclosed real estate property, for some period of time, by paying an amount specified by law. A fund should not wait until this redemption period has expired to reflect the change in the form of a mortgage loan investment to real estate property. The creditor obtains physical possession when it obtains legal title because it generally has the right to sell the property subject to the borrower's right of redemption.

Accounting guidance for REO transactions is primarily driven by ASC 310-40. When a creditor receives physical possession of real estate property that collateralized the mortgage loan, it should derecognize the loan receivable and recognize the real estate property at its fair value in accordance with GAAP⁴.

For investment companies, ASC 946 does not provide specific guidance on how to record any difference between the mortgage loan investments carrying value (representative of fair value, which is often reflective of the fair value of the underlying collateral in cases where the borrower has defaulted or is otherwise exhibiting signs they are unable to repay the loan) and the fair value of the REO asset.

As a result, there are two methodologies that could be considered when determining the appropriate accounting for such differences in the real estate property recognized at fair value at the point of physical possession by the lender and fair value of the mortgage loan investment.

- In one methodology, the associated difference between the fair value of the mortgage loan and the REO asset is recorded as an unrealized event within the statement of operations. Under this methodology, there has been no realization event as the investment still exists; however, the investment has taken the form of an equity interest rather than a mortgage loan. As there is still uncertainty to the overall returns from the initial mortgage loan investment the fund would continue to record all changes to the fair value of the investment (regardless of the form) as unrealized until the real estate property is sold. The cost basis in the mortgage loan would be the outstanding principal balance of the mortgage.
- The other methodology would be to treat the receipt of real estate property in exchange for the mortgage loan investment as a realization event in the statement of operations. Under this

⁴ ASC 310-20-40-2

approach, the new cost basis of the real estate property would be the fair market value of the real estate property at the time of foreclosure.

In determining which approach is utilized, the fund's management should understand legal form (i.e., is the real estate property owned under a new legal entity or the existing LP/LLC that originated the mortgage loan) when considering whether there is a realized or unrealized event.

Regardless of the methodology followed regarding the reporting for repossession, deed-in-lieu or foreclosures, such methodology should be disclosed and applied consistently through the fund's life. Relevant details of the foreclosure should be included in the notes to provide for an understanding of the nature of the investment.

Foreclosed or repossessed real estate should be presented on the balance sheet as a separate financial statement line item with disclosure of the change in the form of the investment disclosed in the notes to the financial statements. ASC 310-10-50 also requires a fund to disclose (1) the carrying amount of foreclosed real estate property held by the fund and (2) the recorded investment in consumer mortgage loans collateralized by real estate property that are in the process of foreclosure.

Refer to the NCREIF PREA Reporting Standards Fair Value Accounting Policy manual for further guidance on the accounting for real estate property investments after foreclosure, deed-in-lieu or repossession in the fund's financial statements.

3.07 Accounting for Debt Securities

3.07(a) Debt Securities: A fund may invest in a variety of different types of securitized loan products including Collateralized mortgage-backed securities (CMBS), CLOs, Collateralized debt obligations (CDO), and other publicly or privately traded commercial real estate securities. These are fixed income debt investments backed by mortgages on commercial real estate properties.

Securitized debt vehicles are financial arrangements that involve the transfer of assets, such as loans or receivables, to a separate legal entity, such as a special purpose entity (SPE) that issues securities backed by the cash flows from the assets. The purpose of securitization is to isolate the assets from the credit risk of the transferor, to enhance the liquidity and marketability of the assets, and to lower the cost of funding for the transferor.

3.07(b) Accounting: The accounting for most fixed income debt securities will be similar in nature to the accounting guidance outlined above per Section 3.03.

The accounting for certain securitization transactions depends on whether the transferor has surrendered control over the transferred assets and whether the transferee is a consolidated entity of the transferor. The consolidation of securitized debt vehicles is governed by the guidance within ASC 810 and ASC 860.

3.07(c) Consolidation Principles: The concept of consolidation does not apply for debt funds that meet investment company criteria in accordance with ASC 946 and present on a non-operating or net basis. For debt funds that are presented on a gross basis, the consolidation of securitized debt vehicles is based on the concept of control, which is the power to direct the activities of an entity that most significantly affect its economic performance. Control can be achieved through voting rights or other

contractual arrangements that give the reporting entity the ability to influence the decisions and outcomes of the securitized debt vehicle.

3.08 Financing Alternatives

Funds may utilize a variety of forms of leverage, both financial and structural, to enhance the returns of the fund. Financial leverage alternatives include note-on-note financing, repurchase facilities (warehousing facilities), and securitization via the commercial real estate collateralized loan obligation (CLO) market.

Structural leverage may be achieved through (i) sale or syndication of senior participation interests in the fund's originated mortgage loans, or (ii) acquiring a subordinate position from another originating lender.

For entities that present in accordance with ASC 960, there is diversity in practice as certain funds may hold these financing alternatives at cost.

Investment companies that do reflect these financing alternatives at fair value should do so in accordance with ASC 820 based on the amount, from the market participant's perspective, at which the liability could be transferred in an orderly transaction between market participants at the measurement date, exclusive of transaction costs. The fair value definition of ASC 820 focuses on the price that would be paid to transfer the liability (an exit price), not the price that would be received to assume the liability (an entry price).

The Fair Value Option under ASC 825-10 also permits entities to elect a one-time irrevocable policy election option to measure financial instruments at fair value on an instrument-by-instrument basis.

3.08(a) Note-on-note financing: The fund may finance the acquisition of mortgage loans using note-on-note transactions in which the note-on-note lender provides an advance (calculated as a percentage) against the loan asset originated or acquired by the fund. In return, the fund assigns the underlying loan as collateral to the note-on-note lender. Note-on-note financings may be either partially recourse or non-recourse to the fund. The fund maintains the levered asset in its statement of net assets and the proceeds from the transaction are recorded as a liability in the fund's statement of net assets. The note-on-note accrues interest expense based on contractually defined rates at time of issuance. The fund is obligated to continue paying interest to the note-on-note holder even if the original borrower defaults. If the fund defaults on its obligations, the note-on-note lender can take ownership of the underlying loan (collateral) without going through foreclosure proceedings.

3.08(b) Loan participation: In this structure the fund originates a loan, and either concurrently or subsequently transfers an interest in that loan to one or more lenders in exchange for proceeds equaling the transferred interest. Participations may be either (a) pari passu (of equal priority) or (b) senior/subordinate. The former does not create structural leverage; it only reduces the fund's exposure. If the fund transfers a senior position (either a senior mortgage or A-note) whereby the fund retains a subordinate position, this transaction creates structural leverage. Loan sales and participations are usually non-recourse to the fund. If the transfer does not meet the requirements for sale accounting under ASC 860, the fund continues to recognize the entire asset in its statement of net assets, and the proceeds from the transfer are presented as a liability or secured borrowings

within the statement of net assets. The fund continues to maintain effective control of the loan, and the loan continues to be serviced by the loan servicer originally elected by the fund.

3.08(c) Repurchase Facilities (Warehouse financing): This type of leverage is typically facilitated through a Master Repurchase Agreement (MRA). ASC 860-30 defines an MRA as an agreement under which the transferor (repo obligor or seller) transfers a financial asset to a transferee (repo lender or buyer) in exchange for cash and concurrently agrees to reacquire that financial asset at a future date for an amount equal to the cash exchanged plus interest. The fund, as the repo obligor, will sell eligible loans to the lender with a simultaneous agreement by the lender to sell the loans back upon request of the fund on the related repurchase date. The fund can revolve eligible loans on and off the facility in accordance with the MRA. Repurchase facilities are typically partially recourse to the fund.

The fund (or transferor) shall continue to report the transferred financial asset in its statement of financial position with no change in the asset's measurement (that is, basis of accounting). In accordance with ASC 860-30, the fund can account for the sale of the loans under the MRA as secured borrowings, and the fund maintains effective control over the transferred loans and investments.

The accounting for noncash collateral by the obligor and the secured party depends on whether the secured party has the right to sell or repledge the collateral and on whether the obligor has defaulted. Noncash collateral shall be accounted for as follows:

- If the repo lender has the right by contract or custom to sell or repledge the collateral, accounting guidance requires that the obligor reclassify that asset and report that asset in its statement of financial position separately (for example, as security pledged to creditors) from other assets not so encumbered⁵.
- If the repo lender sells collateral pledged to it, it shall recognize the proceeds from the sale and its obligation to return the collateral. The sale of the collateral is a transfer subject to the provisions of this Topic.
- If the obligor defaults under the terms of the secured contract and is no longer entitled to redeem the pledged asset, it shall derecognize the pledged asset as required by paragraph 860-30-40-1 and the repo lender shall recognize the collateral as its asset. See paragraph 860-30-30-1 for guidance on the secured party's initial measurement of collateral recognized. See paragraph 860-30-40-1 for further guidance if the debtor has sold the collateral.
- Except as provided in paragraph 860-30-40-1 the obligor shall continue to carry the collateral as its asset, and the secured party shall not recognize the pledged asset.

To provide an understanding of the nature and risks of short-term collateralized financing obtained through repurchase agreements that are accounted for as secured borrowings at the reporting date, a fund shall disclose the following information for each interim and annual period about the collateral pledged and the associated risks to which the transferor continues to be exposed after the transfer:

⁵ 860-30-45-1

- A disaggregation of the gross obligation by the class of collateral pledged. An entity shall determine the appropriate level of disaggregation and classes to be presented on the basis of the nature, characteristics, and risks of the collateral pledged.
- The remaining contractual maturity of the repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. A fund shall use judgment to determine an appropriate range of maturity intervals that would convey an understanding of the overall maturity profile of the fund's financing agreements.
- A discussion of the potential risks associated with the agreements and related collateral pledged, including obligations arising from a decline in the fair value of the collateral pledged and how those risks are managed.

3.08(d) **Term loan financing:** Term loan financing provides leverage that is generally fully funded at origination and is secured by a single asset or portfolio for a predetermined term. Term loans may be structured as a pari passu tranche adjacent to a revolver or as stand-alone financings. A term loan enables the borrower to borrow a specific sum of money, which is repaid over an agreed-upon period, with fixed or floating interest rates and a contractual repayment schedule.

3.08(e) **Collateralized Loan Obligation (CLO) Securitization:** When appropriate, the fund may pool mortgages and other loans receivable in a trust, which is certificated, rated and generally sold to institutional fixed income investors as bonds (CLO Securitization or Securitization). The senior-most tranches of the trust are sold into the fixed income markets with the issuer (the fund) retaining the junior classes of bonds. Interest is paid to the senior bond holders first with all residual interest income from the loans paid to the junior classes. As loans are repaid, the principal is typically used to pay off the senior tranches first, then sequentially to more junior classes, which simultaneously reduces leverage and increases the weighted average cost of financing.

Risk retention rules, as set forth by the relevant federal regulatory agencies, may require the funds or financial institutions that securitize pools of CMBS or CLO mortgages to satisfy specific risk retention obligations related to the credit risk associated with those bonds. The risk retention interest may impact financial statements by requiring the identification and accounting for the retained risk, including potential impacts on valuation and disclosure. The rules also affect financial reporting by requiring specific disclosures about the retained risk and its impact on the CLO's financial position and performance.

3.08(f) **Financing costs:** Financing costs represent costs incurred in connection with obtaining fund or asset level leverage. For certain financing alternatives, this may include both a recurring advance fee and an advance fee paid to lenders whenever the loan investment is pledged to the facility. Usually, the advance fee is a percentage of the total loan commitment.

Upfront costs and fees related to financings for which the Fair Value Option is elected shall be recognized in earnings as incurred and not deferred⁶. The Fair Value Option under ASC 825-10 permits entities to elect a one-time option that is irrevocable to measure financial instruments including, but

⁶ ASC 825-10-25-3

not limited to, notes payable and portfolio level debt at fair value on an instrument-by-instrument basis.

It is recommended that, subsequent to the adoption of the Fair Value Option under ASC 825-10, and for all entities that fair value these financing alternatives, the related financial costs are not deferred and continue to be fully expensed as a component of net investment income for those instruments that are measured at fair value.

For those entities that have not adopted the Fair Value Option under ASC 825-10, debt costs will continue to be deferred and amortized to interest expense using the effective interest method.

3.09 Current Expected Credit Loss (CECL) Accounting Guidance

Note: As outlined below within Section 3.09 (b), this section on CECL will not impact fair value reporting entities; however, it is included for completeness purposes or instances in which investments may be held at cost.

3.09(a) ASC 326 CECL: The FASB issued ASU 2016-13 to amend its guidance on the impairment of financial instruments. The ASU adds to US GAAP an impairment model known as the Current Expected Credit Loss (CECL) model, which is based on expected losses rather than incurred losses. The objectives of the CECL model are to:

- Reduce the complexity in US GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments
- Eliminate the barrier to timely recognition of credit losses by using an expected loss model instead of an incurred loss model
- Require an entity to recognize an allowance of lifetime expected credit losses
- Not require a specific method for entities to use in estimating expected credit losses

3.09(b) Applicability: Financial instruments (including mortgage loan investments) that are measured at fair value with changes through the income statement are not subject to ASC 326, the current expected credit losses (CECL) standard. ASC 326 primarily applies to financial assets that are measured at amortized cost or at fair value through other comprehensive income (OCI). Therefore, the specific requirements and guidelines for estimating and recognizing credit losses under ASC 326 are not applicable to financial instruments measured at fair value with changes through the income statement.

3.10 Investment Advisory fees

3.10(a) General

Investment advisory fees may include acquisition, origination, asset management, disposition, financing, and incentive fees. These fees are generally paid by the fund to the manager and reflected in the fund's financial statements. However, if these fees are paid from the investor(s) to the manager directly, they may not be reflected in the fund financial statements, but should be disclosed in the footnotes.

3.10(b) Acquisition, Origination and Financing fees

Acquisition and origination fees paid to the manager by the fund generally compensate the manager for their services rendered in originating or acquiring mortgage loans receivable. These fees are generally expensed as incurred and reported as a component of net investment income.

Financing fees generally compensate the manager or a third-party advisor for their services rendered for a loan payable that the advisor arranges on behalf of the investment. These fees are generally expensed as incurred and reported as a component of net investment income.

3.10(c) Asset Management Fees

Asset management fees are generally expensed as incurred and reported as a component of net investment income.

3.10(d) Disposition Fees

Disposition fees may be paid when an investment is sold. The fee generally compensates the manager or a third-party advisor for services rendered in an investment disposition, including sales marketing, negotiating, and closing. As this fee is not earned until the work is performed or substantially performed, the fee is generally recognized as a cost of sale in the period in which the investment is sold and is not considered as a component of fair value prior to the sale date.

3.10(e) Incentive Fees and Promote Reallocations

3.10(e.1) Incentive fee arrangements and calculations vary widely and are governed by the fund documents, but generally these fees are paid after a predetermined investment performance return has been attained. For example, these fees may be payable upon, actual or constructive sale of an investment or portfolio, when cash flows from operating or capital distributions exceed some threshold, or at certain measurement dates during the hold period based upon a hypothetical sale of an investment or portfolio.

3.10(e.2) Incentive fees earned by the manager should be recognized as a payable as if all assets were sold and liabilities were settled at the date of the Statement of Net Assets. The calculation of the amount earned is specific to the related fund advisory agreement, but generally the calculation should assume that the investment or fund is liquidated at its fair value as of the reporting date and cash proceeds are distributed to the investors. An expense and liability should be recorded for the amount of the incentive fee, although not necessarily currently payable.

3.10(e.3) The related impact of recording a liability for an incentive fee should be either (1) Changes in incentive fees that result from meeting and exceeding operating result goals are expensed as a component of net investment income; or (2) Changes in incentive fees and promotes (carried interest) that are earned based on changes in an investment's fair value are recorded as a change in unrealized gain or loss.

3.10(e.4) Incentive fees recorded in the financial statements are generally either recorded: (1) within realized or unrealized gains, if the primary driver of the incentive is related appreciation of the investment, or (2) within net investment income, if the primary driver of the incentive is income based return.

3.10(e.5) Certain promote reallocations that would be due to a general partner or managing member in the manner of “carried interest” should not be expensed, but rather should be reflected as a reallocation of capital from the limited partners to the general partner in the Statement of Changes in Net Assets.

3.10(f) Related Party Fees and Affiliate Transactions

3.10(f.1) Related parties are defined in the glossary to the FASB Codification and include, but are not limited to, affiliates of the entity, principal owners of the entity, management of the entity, parties over which the entity has significant influence and parties that have significant influence over the entity. An affiliate is defined in the glossary as a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity. Affiliate loan administration or loan servicing arrangements for debt funds may fall into the scope of related parties.

3.10(f.2) Related party fees and affiliate transaction arrangements should be properly disclosed in the financial statements, regardless of how significant or quantitatively immaterial the amounts involved are. The investment manager should seek to provide full transparency to fund investors regarding all fees and arrangements where an affiliate entity provides services or is otherwise involved in a particular fund or separate account.

Per the AICPA Investment Company Guide paragraph 7.118, “Amounts paid to affiliates or related parties (such as advisory fees, administration fees, distribution fees, brokerage commissions, and sales charges) should be disclosed, in accordance with FASB ASC 850. Significant provisions of related-party agreements, including the basis for determining management, advisory, administration, or distribution fees, and, also, other amounts paid to affiliates or related parties should be described in a note to the financial statements.”

3.10(f.3) ASC 850 also states that transactions between related parties are considered to be related party transactions even though they may not be given accounting recognition. For example, an entity may receive services from a related party without charge and not record receipt of the services. While not recorded, their disclosure is required, nonetheless. Refer to the related party fees and affiliate transactions footnote in the illustrative financial statements.

VALUATION

The purpose of the Valuation section of the Manual is to provide clarification and guidance on valuation issues and policies that are specific and unique to debt and credit funds. As such, the Manual will not include established guidelines set forth by other governing bodies or professional valuation or appraisal organizations; however, such guidelines or reporting and ethical requirements may be referenced when applicable.

4.01 Key Concepts

Market participant behavior establishes fair value.

Fair value is a market-based measurement, and when valuing debt investments, market participants should take into account the perspective of similar investors in the relevant market for the same investment. It is measured using the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk.⁷

Market participants often include similar investors.

When valuing debt investments, market participants often include similar investors in the relevant market for the same investment. For instance, when valuing debt investments (i.e., loans valued from the lender's perspective), market participants may include other lenders in the same market. As a result, entities that are investors in a financial instrument should measure fair value from the perspective of a market participant that holds the asset.⁸

Valuation conclusions should consider relevant exit scenarios.

The objective of fair value measurement is to estimate an exit price as of the reporting date from the perspective of a market participant that holds the asset or owes the liability. Understanding future exit scenarios may be helpful when considering "the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk."⁹

Fair value measurement requires judgement.

A fair value measurement should consider relevant calculations and scenarios that a market participant would consider in evaluating the debt investment. Assessing the significance of any input requires judgment, considering factors specific to the investment. Further, "the availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques." In some cases, a thoughtful reconciliation of multiple calculations or scenarios may be the most appropriate fair value conclusion.¹⁰

⁷ ASC 820-10-05-1B

⁸ ASC 820-10-05-1C, ASC 820-10-35-16H

⁹ ASC 820-10-05-1C, ASC 820-10-35-53

¹⁰ ASC 820-10-35-38, ASC 820-10-35-2B

Most Likely Cash Flows

Cash flows

When valuing a debt investment, the schedule of cash flows used in an application of the income approach will usually represent what is most likely to occur after a review of contractual terms and expectations about possible variations in the amount and timing of payments. However, as described above, judgement should be exercised, and in some cases, a thoughtful reconciliation of possible cash flows from multiple calculations or scenarios may be the most appropriate method to determine the schedule of cash flows to be used.

Loan economics

The loan documents (normally the loan agreement and/or promissory notes, including any amendments) should contain the key economic data that defines the future contractual cash flows for the loan. For example, information needed to model the contractual cash flows for a fixed-rate loan may include the origination date, maturity date, payment frequency, day-count convention, payment dates, prepayment information, principal amount, amortization information, and as applicable, the fixed-rate coupon, floating rate coupon (spread over margin), and origination, extension, exit, and other fees.

Expectations about possible variations

After consideration of contractual loan economics, adjustments may be needed to represent what is most likely to occur. The most likely cash flow may change over the life of a loan depending on different facts and circumstances. Examples of possible variations that should be considered include anticipated early prepayment, contractual amendments, extension options, forbearance agreements, expected missed payments or in some cases exercising the right to step into equity ownership (via foreclosure, deed-in-lieu, or otherwise). In all cases, the cash flows used to determine fair value should be attributable to the financial asset or liability being measured, and they should be reflective of assumptions that market participants would use when pricing the asset or liability.¹¹

Valuation Principles

The valuation of most debt investments employs an income approach, which considers the contractual cash flows of the investment and a market discount rate. In some situations, the par value approach is employed as described below in section 4.05. The following is a summary of valuation principles for debt investments commonly utilized by debt funds.

- Cash flows and assumptions must be measured from the perspective of a debt investor (not the borrower).
- A discounted cash flow valuation method discounts cash flows at a market interest rate.
- Market interest rates should be based on observable market data and reflect prevailing interest rates, considering factors such as underlying property type, credit metrics, remaining term/duration/average life, and advance rates.
- The term of the cash flows should represent what is expected to most likely occur over the life of the asset including considerations to prepayment terms, extension options, and the assumed maturity date of the debt investment.

¹¹ ASC 820-10-55-6

There may be situations for which valuation is determined using a market approach, for example when the loan is nonperforming as described in section 3.03 Nonperformance below. Fair value measurements must reflect the price that is expected to be paid by a market participant to purchase the debt asset and should be tested against market evidence.

A written Valuation Policy, including methods and procedures, must be maintained and consistently applied. The Valuation Policy must:

- Include definitions of internal roles and responsibilities for the execution and governance of the valuation process
- Describe the frequency of internal and external valuations
- Describe independent valuation process oversight (internal or external) including the review and approval of final values, as well as diligence applied to appraiser selection where relevant
- Identify and source (or define) the relevant applicable professional standards of the valuation process
- State whether liabilities are valued
- Address value acceptance and dispute resolution procedures.

4.02 Frequency and Timing of Valuations

Debt Investments

Valuation of debt investments supporting fund net asset value (NAV) must be calculated in an objective and competent manner by qualified professionals. The fair value analysis can be accomplished by internal staff, third-party service providers, or a combination thereof; although, the fund type or investment vehicle should be considered as described in Assets, Liabilities, and Net Asset Value (NAV) below.

Valuations of debt investments prepared by third parties must be performed in conformance with applicable laws and regulations by properly credentialed professionals. Valuations prepared by internal staff should include appropriate research and analysis sufficient to result in a credible conclusion. Internal valuations should be prepared in a transparent environment, supervised by competent credentialed professionals, and documented in a manner sufficient to permit a review of results whereby steps leading to specific valuation outcomes can be verified.

Internal valuation analysis and documentation can be prepared by the fund manager/GP; however, reporting, approval, and oversight responsibilities should be managed by individuals or committees with independence, and compensation of these individuals should not be tied to changes in valuation of assets for which they have responsibility. Both internal and external research resources should be regularly consulted as a further means of promoting accuracy in the valuation process.

The timing and frequency of fund valuations should align with several factors, including timing and frequency of financial reporting, performance measurement needs (e.g., industry benchmarking), and both the timing windows for contributions and redemptions, as well as the specific type of fund or investment vehicle. The overriding principle is to align the frequency of valuation with the fund's most frequent valuation reporting requirements, which is at least quarterly or annually per industry best practice. Open-end funds typically obtain external valuations on a quarterly basis; although, internal valuations are also appropriate. Closed-

end funds may obtain either internal or external valuations on debt investments with external valuation timing determined by the fund's governing documents.

Underlying Real Estate Collateral

The underlying real estate collateral valuation should be prepared by an independent appraiser prior to the loan origination. For debt investments in the form of syndicated loans, mortgage-backed securities, and other such structures, an appraisal of the underlying real estate collateral is obtained by the originator closing the loan and is generally shared with investors, like a debt fund investor. It may be impractical for the debt fund to obtain a new appraisal, and therefore, is not required.

After origination or investment, reasonable judgement should be exercised to determine the frequency and level of valuations (i.e., ranging from internal update to new, external MAI appraisal). Ongoing credit monitoring of relevant factors such as market conditions and property performance, without limitation, should be conducted to determine if the most recent value disclosed in reporting to investors, benchmarks, or other relevant interested parties remains supportable. Internal and/or external valuation updates should be conducted at the earliest of a) the period in which ongoing credit monitoring suggests a potentially meaningful change to value of the collateral or b) the fund policy's stated valuation frequency. The overriding principle is to ensure that real estate collateral values result in loan-to-value calculations that support investors' understanding of risk. Real estate collateral is typically externally valued at least annually.

REO properties should be valued at fair value and prepared by an independent appraiser at the time of acquisition or transfer. Valuation principles of REO are addressed in section 4.03 Nonperformance below, which further references principles outlined in the *Reporting Standards Handbook Volume II – Valuation Manual*.

4.03 Nonperformance

This section provides a framework to establish valuation procedures for nonperforming debt investments.

A valuation policy should proactively address nonperformance scenarios. The fair value treatment of nonperforming investments should be aligned with general valuation principles, periodicity and other definitions dictating the valuation of all fund investments; however, nonperformance may call for more expansive valuation methodologies, potentially including a thoughtful reconciliation of various outcomes.

Stages of nonperformance

For debt investments secured, directly or indirectly, by commercial real estate, metrics such as loan to value, debt yield, debt service coverage ratios, and internal risk ratings are often used to monitor credit risk. The risk of nonperformance increases as one or more of these performance metrics deteriorate, leading to a higher likelihood of outcomes other than the underwritten contractual cash flows and maturity repayment. Examples of nonperformance include:

- Debt service coverage ratio or debt yield falling materially below business plan, which may or may not represent a technical default;
- Property value falling below the principal balance through the last dollar (i.e., below the principal balance of all secured and mezzanine debt);

- Indications that a borrower will not satisfy an upcoming liquidity event, such as final maturity, a required partial paydown due to financial covenants, a required purchase of a replacement cap with a low strike, or the required funding of a reserve account.
- Maturity or debt service default; and/or
- Event of default as defined by the loan documents, if material.

Methodology Considerations

Regardless of performance, debt valuations should begin with modeling the most likely cash flows and determining the market yield for the investment given its term, credit risk level, etc. Upon identifying an investment having entered the stages of distress, a valuer must contemplate alternative investment outcomes and build upon the valuation methodology.

Depending on the stage of nonperformance, alternative investment outcomes may include:

- Discounted payoff with/without modification to the contractual principal and interest payments;
- Modification of the existing loan that may include extension of the maturity date, principal paydown, adjusted amortization schedule, and/or change in the coupon rate;
- Foreclosure and sale of the underlying real estate; or
- Deed in lieu of foreclosure and sale of the note or the underlying real estate.

Each of the alternative outcomes detailed above may result in different present-value implications. Additional due diligence should be performed to i) identify the probable outcome specific to the debt investment, ii) quantify costs to resolve the debt investment or liquidate the nonperforming collateral, and iii) employ a valuation methodology appropriate for such a scenario. For example, a non-performing loan due to an immaterial event of default may have a low probability of collateral foreclosure, making the assessment of collateral valuation less relevant. If nonperformance escalates, however, the value of the collateral will become crucial in estimating loan repayment proceeds, and a collateral analysis should be incorporated into the methodology.

Because there are several potential resolutions to a nonperforming debt investment, multiple valuation techniques may be used to measure fair value. Respective indications of fair value should be evaluated and considered in developing the reasonableness of the range of values indicated by those methodologies. The fair value measurement is the point within that range that is most representative of fair value under the circumstances.¹²

The stage of nonperformance will influence the principal market for the debt investment, which could include balance-sheet lenders, opportunistic debt investors, or equity investors intending to exercise rights to foreclose and own the collateral at a favorable cost basis. To accurately value debt investments, a reporting entity must include appropriate risk adjustments, such as a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability.¹³

¹² ASC 820-10-55-35

¹³ ASC 820-10-35-54E

Additional due diligence by the valuer will be required to understand how market participants underwrite nonperformance outcomes and formulate their assumptions about risk.¹⁴ Support for these assumptions can be derived from a few sources including, but not limited to, recent loan originations, secondary market loan transactions, discussions with market participants, and appraisals of the collateral.

Other valuation considerations

The valuation of nonperforming investments requires significant judgment. Below are additional factors that need to be contemplated for valuation of nonperforming debt investments:

Liquidation Value

Despite nonperformance, it is critical for a valuer not to conflate an orderly transaction with that of a liquidated value, which does not adhere to fair value definitions. Although a principal market for certain investments may result in fair value akin to liquidation pricing, determination of market-based valuation methodologies and assumptions of market participants remain critical to establishing fair value.

Collateral Valuation

The valuation of collateral should assume it trades in its principal market (among equity investors) and align with the date of measurement of the debt investment. For non-stabilized assets, an effective date and prospective value at stabilization should be estimated and reasonably derived. It is recognized that the lender may only have a contractual right to lagging or incomplete information from the borrower regarding the collateral performance, and thus, market-based assumptions may need to be employed in the valuation analysis.

Collateral values can be derived using methodologies appropriate to the inherent credit risk of the debt investment. For debt investments with moderate loan to value, the collateral value is a qualitative risk monitoring metric, rather than a valuation input. Therefore, an efficient valuation methodology (such as a Market Approach or Direct Capitalization Analysis) can be reasonably employed. As nonperformance risk escalates, the collateral value has a greater impact on the debt investment valuation, and an underlying collateral valuation should be performed.

Ownership Rights

While the collateral is valued as if trading in its principal market among equity investors, the ownership rights of a debt investment are not equivalent to those of equity ownership. A potential buyer of the debt investment may not obtain the full equity rights of the collateral position and therefore may reduce its purchase price for interim holding costs, such as legal fees, transfer tax and special servicing expense, timing of a potential foreclosure, senior debt payoffs, and risks involved in the assumptions.

Real Estate Owned (REO)

Treatment of REO should be outlined in the fund's valuation policy. Any valuation of REO should align with the principles outlined in the *Reporting Standards Handbook Volume II - Valuation Manual*.

¹⁴ ASC 820-10-55-1C

4.04 Prepayment

Loan prepayment features allow the repayment of all or a portion of the loan's outstanding principal balance ahead of its scheduled maturity date. A loan prepayment is akin to a bond call feature in which the issuer (borrower) has the right to freely buy back the loan from the holder (lender) at a strike price that changes over time. Prepayment options are typically exercised if a) the credit quality of the borrower/collateral improves and the borrower is able to obtain a new loan with greater proceeds than the existing loan; b), the interest rate environment changes whereby the borrower is able to obtain a new loan at a lower rate that is more attractive than the cost to prepay the existing loan; or c) the borrower plans to sell the underlying collateral unencumbered.

Some debt prepayment terms may not include penalties for accelerated partial or full principal repayment, while others may include specific prepayment terms or penalties to compensate the lender for its financial loss due to premature repayment. Prepayment penalty structures can vary significantly depending on the lender, the type of loan, and other specific terms.

Types of Prepayment Features

The following are prepayment features and their respective penalty structures. The loan documents will specify the specific prepayment terms, if any, allowed under the loan:

- No penalty – Borrower may freely prepay the outstanding principal balance of the loan, either in full or in increments, without financial penalty.
- Fixed - Borrower pays a fixed fee or a percentage of the remaining loan balance if the loan is prepaid. This fee is agreed upon in the loan documents and is enforced regardless of when the loan is repaid during the term.
- Stepdown, Graduated, or Scaled – Borrower pays a penalty that decreases over time in a predetermined manner. For example, a common stepdown format for a loan with a five-year term might be 5% of the outstanding loan balance if prepaid in the first year, 4% in the second year, 3% in the third year, and so on.
- Yield Maintenance – Borrower pays a sum that equates to the present value of the remaining interest payments that the lender will lose due to early repayment. This penalty ensures that the lender receives a yield that is at least equivalent to what was originally agreed upon, even if the loan is prepaid. The discount rate and methodology used for calculating the present value will generally be specified in the loan documents. Many yield maintenance provisions provide for a minimum payment (e.g., 1% of the principal balance being prepaid), in case the yield maintenance calculation results in a small or negative yield maintenance payment owed.
- Defeasance – Borrower may substitute government securities for the underlying real estate collateral under the loan. The government securities are specifically selected to provide equivalent cash flows to match the contractual payments and any maturity balloon payments of the original loan. Upon defeasance, the borrower's real estate collateral is released as security from the original loan; the Borrower no longer has obligations under the original loan; and the Borrower is free to refinance or sell the property.

Cash flow Considerations

Cash flow forecasts should incorporate the probability and timing of loan prepayment with consideration of market participant views where appropriate. The determination of the most likely cash flows is dependent

on the specific terms of the loan documents and on the availability of reliable market data. Predicting mortgage prepayments may also be driven by factors such as interest rate environment, economic conditions, borrower characteristics, and loan characteristics including performance. In all cases, the cash flows should be reflective of assumptions that market participants would use when pricing the asset or liability.¹⁵

Valuation Considerations

The accuracy of prepayment predictions can influence the valuation impact of a particular loan, and assumptions used in the valuation model should be supportable. It is important to use valuation methods that reflect the behavior of typical market participants and are informed by observable inputs. It should be assumed the borrower acts in its own economic best interest, such as settling unfavorable liabilities if open to prepay. Any adjustments to observable market data should be explained and documented. The resulting schedule of cash flows used in an application of the income approach should represent what is most likely to occur. As described in 4.01 above, judgement is required, and in limited circumstances, loans with complex prepayment terms may necessitate scenario-based methods to reflect the most advantageous action taken by both the borrower and lender. Valuation techniques used to measure fair value should be applied consistently unless a change in a valuation approach is warranted and appropriately documented.

4.05 Valuations Equal to the Unpaid Principal Balance

The income approach framework is often used to determine fair value. Under the income approach, the fair value may be above, below, or equal to the unpaid principal balance, also known as the par value of the debt investment, depending upon factors such as the level of interest rates and the credit metrics of the debt investment. Specific circumstances and attributes of debt investments may support the application of the “par method” as an acceptable valuation technique. The par method posits that the fair value of the debt aligns with its unpaid principal balance, an easily observable input. In every case, the integration and weighting of the par method within the overall debt valuation should be considered a material assumption and, therefore, appropriately evaluated and documented.

Performing loans

Factors and situations that may warrant a partial or complete reliance on the par method for valuation purposes encompass, but are not limited to:

- *Loan remaining duration:* Short duration performing loans with a) shorter remaining terms (generally less than 12 months) and b) credit profiles that support payment at maturity are generally held at par. In these situations, most lenders do not view variations between contractual and market interest rates as meaningful because the shorter remaining term (calculated to contractual maturity or the start of an open, fee-free, prepayment period) does not drive a significant market adjustment.
- *Recent originations:* Recently originated mortgages (within one year) tend to be good representations of the market environment and are therefore more accurately valued by the par method. It is important to note that this only holds true where i) market conditions do not significantly change from rate lock, and ii) the collateral’s performance and the borrower’s credit

¹⁵ ASC 820-10-55-6

worthiness remains consistent. Significant changes in market conditions would include material changes in interest rates and/or credit spreads for comparable new loan originations.

- *Contract Rate Favorability:* Mortgages in which the difference between the contract rate and the prevailing market interest rate is negligible (using professional judgment) may be more accurately valued via the par method. When valuing loans at par, documentation should include analysis demonstrating why market rates have not materially changed since origination or why prepayment economics render premium or discount valuations inapplicable.
- *Derisking and prepayment:* Investments that feature above-market contractual interest rates compared to the market environment (premium loans) should be evaluated for prepayment penalties. Premium loans that are open for prepayment without penalty may be marked to par as borrowers would generally refinance to market rate if they are paying more than the going market rate. It is important to note that other loan characteristics (mentioned above) should be evaluated in tandem with the presence of prepayment penalties to determine if par is the most appropriate conclusion.

Nonperforming loans

- *Impairment (nonperformance):* Where there are indications of nonperformance (i.e., missed or late payments) a par conclusion is most likely not an acceptable method of loan valuation. Refer to the sections on nonperformance and frequency and timing of valuations for further detail.

4.06 Origination, Extension, and Exit Fees

Origination Fees

For debt investments, origination fees are not generally factored into valuations. Origination fees are generally paid by borrowers at the origination of commercial real estate loans and do not impact cash flows beyond originations. Such fees are considered cash flows associated with the origination of the loans and earned at the time of origination or amortized over the life of the loan. Therefore, origination fees are not included in cash flows for loan valuations, which occur after a loan has been originated.

Extension Fees

For debt investments that are modeled past their initial maturity dates and extension fees are applicable, the extension fees should be factored into the valuation cash flows. Maturity date/repayment assumptions are based on the most likely scenario to occur. Extension fees that occurred in the past should not be factored into valuation cash flows.

Exit Fees

For debt investments, exit fees should generally be factored into the valuation cash flows. Exit fees are contractual fees that are detailed in loan documents and are generally paid by the borrower when loans are repaid. There may be certain circumstances in which exit fees are waived, for example, if the loan is refinanced by the same lender. Exit fees should only be considered in the valuation process if such fees are contractually owed and not contingent; contingent exit fees (i.e., triggered based on repayment date or return thresholds) should be excluded from valuation cash flows unless it's known with certainty that they will be paid. Contractually owed exit fees should be included in valuation cash flows based on the most likely scenario to occur.

It is acceptable for exit fees not to be modeled in valuation cash flows if they are accrued and accounted for by an internal accounting team, and this approach has been documented.

4.07 Financial Liabilities

Various leverage strategies may be utilized to enhance investment returns in private real estate debt funds, including financial and structural leverage. The most common forms of financial leverage include warehouse lines, repurchase agreements, CRE CLOs, and loan-on-loan financing. The use of financial leverage creates a borrowing obligation of the fund (or a subsidiary single purpose vehicle) and may be recourse or non-recourse to the fund. By contrast, structural leverage, such as subordinated or sold-off senior tranches, is not reflected on the fund's balance sheet as a direct borrowing obligation, and therefore, it is not subject to fair value.

Valuation Frequency

From the fund's perspective, when financial leverage is used, it creates a net position, which includes the original loan made to the borrower (asset) and the financing (liability) owed to the bank or other lender. In cases where the fund elects to also fair value its liabilities, the frequency of valuation should be the same for both the debt investments and the financings. It is industry practice for open-end funds to fair value financial liabilities at the same frequency as associated debt investments. Industry practice for closed-end funds or entities that present in accordance with ASC 960 may differ and some closed-end funds carry debt at historical cost (if they do not elect the Fair-Value Option as outlined within Section 3.08(f)). For all funds, industry best practice is that the fund's valuation policy (describing if-and-when liabilities are recorded at fair value) should be consistently applied by the given fund.

Valuation Principles

The following is a summary of common valuation perspectives and principles for financial leverage commonly utilized by debt funds, such as repurchase agreements, loan-on-loan, and CRE CLOs.

- Financial leverage must be measured from the perspective of a market participant, such as another lender.
- Industry practice is to value financial liabilities using a discounted cash flow method, where contractual debt service payments are discounted at a market interest rate.
- Market rates should be based on observable market data and reflect prevailing interest rates, considering factors such as property type, property cash flows, and advance rates.
- The term of the cash flows should represent what is expected to most likely occur over the life of the liability including considerations to prepayment terms, extension options, and the assumed repayment dates applied to the underlying debt investment.
- Fair value measurements must reflect the price that is expected to be paid by a market participant to assume the debt and should be tested against market evidence.
- For traded investments such as CRE CLOs, market pricing may be available from third-party providers. For CLO liabilities, especially for private CLOs without observable market prices, valuation should consider changes in CLO liability spreads for comparable tranches, weighted average life, and underlying collateral performance.

PERFORMANCE AND RISK

The purpose of the Performance and Risk section of the Manual is to provide clarification and guidance on performance and risk metrics at two levels: fund level and investment level. Relevant performance and risk measures will differ between the fund and investment level, and various fund structures (e.g., open-end, closed-end, SMAs) may employ different measures.

Disclaimers

The performance and risk metrics included in the Manual may not be appropriate for all fund investment structures and strategies, so it is up to the user to determine the applicability of each item as it relates to a given fund.

Contrasted with performance and risk measured for the market driven public investments industry, the input data that is used to calculate the various measures described in the Performance and Risk section of the Manual generally come directly from or can be derived from the entity's financial statements or fair value accounting books and records. The Reporting Standards require fair value financial statements prepared in accordance with GAAPAs noted in the Accounting section of the Manual, two financial reporting models exist and are used in practice. Although calculated NAV should be the same in either model, caution should be exercised when comparing performance results of components of NAV (e.g., net investment income, appreciation, expense ratios, etc.) prepared under different GAAP interpretations. Please see the Accounting section of the Manual for more details on financial reporting models.

Rate of return formulas reference certain accounting terminology that is generally applicable to fair value reporters using the operating model. Formulas may assume fees are vehicle expenses or in the case of a promoted interest, an equity allocation to the investment manager. To the extent that fees are paid directly by investors to the manager or where financial statements are presented under the non-operating model or other basis of accounting, certain adjustments and disclosures may be required to be consistent with the Reporting Standards.

5.01 Structure of the Performance Section

The Performance and Risk section of the Manual is organized by metric type and level of reporting:

- Time-Weighted Return
 - Fund Level
 - Investment Level
- Internal Rate of Return
 - Fund Level
 - Investment Level
- Other Performance and Risk Metrics

Each section contains narrative explanations and calculation formulas.

The following table highlights the differences between investment returns and fund returns.

Investment vs. Fund

What's the Difference?



	Investment Returns	Fund Returns
Covers what?	Single investment or group of investments (wholly-owned or joint venture)	Aggregation of all investments of a fund and the amounts earned or incurred which relate to the entity but are not specifically attributable to a particular investment
Includes what?	Full scope of investment, including ownership activity	All investments plus fund asset, liability, income and expense items not allocated to specific investments.

Measures performance
of manager's execution of
investment strategy

Source: NCREIF Academy – *Introduction to Reporting Standards*

5.02 Performance Measurement

Time-Weighted Return (TWR)

Overview

A time-weighted return (TWR) is a rate of compound growth adjusted to eliminate the impact of external flows, typically expressed on annualized terms. Mathematically, it is the compound growth rate of a single dollar invested at the start of the investment period compounded by the rate of return calculated during each measurement period. TWRs, or more specifically, chain-linked Modified Dietz returns, are commonly used to measure the performance of a fund or investment and are a type of day weighting methodology accepted under GIPS. By chain-linking or compounding individual period returns, the TWR formulas remove the timing effect of cash contributions and distributions from the entity's performance. Generally, TWRs are used to compare manager performance because TWRs provide a consistent view of overall performance, which is ideal when investor cash flows vary over time. By focusing on asset performance alone, a TWR allows investors to evaluate performance unaffected by investor cash flow timing.

All TWR formulas are built in a similar manner, with a numerator and denominator deriving a single period rate of return. The numerator generally represents some measure of the change in performance of the entity over the measurement period (e.g., income, appreciation, etc.). The denominator represents a measure of the entity's average size over that same period (e.g., weighted average net asset value).

A technical point worth remembering: "Time-weighting" refers to the process of linking multiple periodic rates of return together. Hence, the rate of return for a single period should not technically be referred to as a time-weighted rate of return. In fact, the popular Modified Dietz method, which is the basis for the single period rate of return used in real estate, is an IRR approximation for that single period. It is the chain-linking of periodic Modified Dietz returns, a process that results in a (multi-period) "time-weighted" rate of return.

Open-End Funds – TWR is the preferred performance measurement calculation for open-end funds. TWR may be calculated at the investment level for certain real estate debt investments, like CMBS, CLO, or REIT debt securities. The calculation methodology for calculating fund and debt investment level TWR is the same. It is not meaningful to calculate TWR at the collateral (property) level for debt investments because although the collateral may secure the debt investment, the property is not the asset owned by the investor.

A fund level TWR is the aggregation of all investments made by the entity and the amounts earned or expenses incurred that relate to the entity but are not specifically attributable to a specific investment. Fund level TWRs are very broad in nature and capture all activity, which includes but is not limited to, income and expenses applicable to the fund, taken as a whole, such as audit and valuation fees, interest income, and leverage expenses. The fund TWR measures the performance of the investment manager in terms of how well the management team performed its specified strategy. Fund level TWRs are usually presented on a levered basis if the debt fund employs fund level leverage or asset specific leverage. Fund TWRs are typically presented before and after-fees (e.g., management fees and incentive fees) and promote (e.g., carried interest) and include the impact of leverage, cash, and other assets and liabilities.

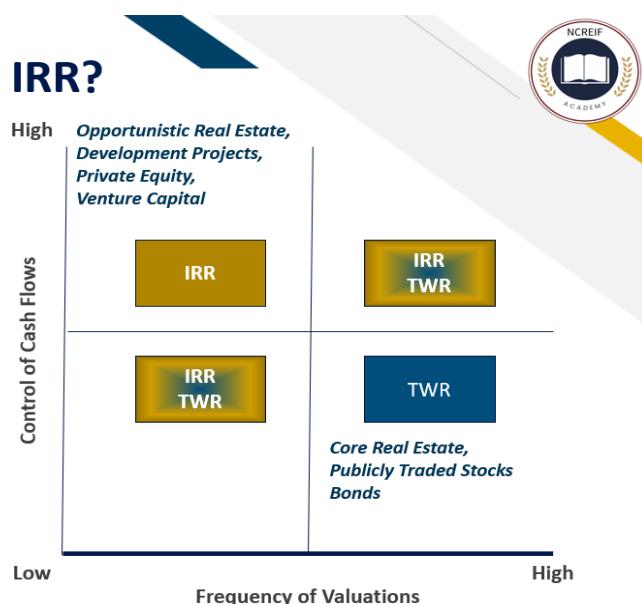
The standard time frame for computing debt fund sub-period TWRs is the quarter given that debt investment valuations are generally performed quarterly. More frequent periods (daily or monthly) can also be used assuming the valuation cycle matches the sub-period. In the U.S., although daily and monthly valuations for private real estate debt funds are becoming more common, the quarter remains the most used sub-period.

Closed-End Funds – TWR is not typically calculated for closed-end funds because the investment manager has greater control over the amount and timing of the fund's cash flows, relative to an open-end fund in which investors may contribute or redeem at their own discretion, and the manager does not control when investor cash enters or exits their funds. IRR is a return calculation method that considers the investment manager's control over fund cash flows and is, therefore, more appropriate for closed-end funds.

The table below provides considerations as to when TWR vs IRR may be more appropriate:

Which Is Better: TWR or IRR?

- If the investment manager does **NOT** have **control** over the amount of funds available to invest each period, then the **TWR** is better
- If the investment manager **DOES** have **control** over the amount of funds available to invest each period, then the **IRR** is better



Source: NCREIF Academy – Introduction to Reporting Standards

Component Returns

When presenting TWRs, it is industry best practice to provide component returns classified as income and appreciation. When component returns are presented for a full quarter, the sum of the income return plus the appreciation return will generally equal the total return for the given quarter. When component returns are geometrically linked to create cumulative compounded returns, the simple addition of the cumulative compounded income return plus the cumulative compounded appreciation return will not usually equal the cumulative compounded total return. Presenting returns with each component separately linked is acceptable and appropriate industry practice.

It is noted that the classification of total return into income and appreciation component returns may vary in practice due to differing accounting and performance policies. As variations in accounting practices exist, it may be difficult to compare component return performance across managers with different policies. Care should be taken when analyzing fund and investment level component TWRs.

Additional Disclosures

When presenting TWRs, the following disclosures are also presented.

- **Gross of fees:** Clearly disclose the types of fees deducted from the gross return to arrive at the net return.
- **Net of fees:** Clearly identify the net of fees returns presented for all investor classes. In situations in which fees are billed separately and/or when different fee arrangements exist for investors, reporting must disclose the impact of these fees on TWR expressed, at a minimum, as a basis points range.
- **Periodicity and presentation period:** Reporting must include a single gross of fee and a single net of fee current quarter result, as well as gross of fee annual TWRs for periods 1, 3, 5, 10 years, and since inception (as time periods are available) as of each reporting date. Other relevant interim annualized periods and/or net of fee cumulative periods should be provided as requested by investors. Since-inception results should only be provided if they consist of five or more geometrically linked quarterly period TWRs. When presented, interim period returns must be provided using consistent methodology.
- **Calculation methodology:** The performance returns should use rate of return methodology that adjusts for daily weighted external cash flows (e.g. Modified Dietz) to produce returns. Returns must be geometrically linked and periods of greater than one year must be annualized. The methodology used to calculate TWR must be disclosed in the footnotes of the reporting.
- **Valuation and accounting policy and fees:** For each period presented, the valuation policy, types of fees, and basis of accounting must be disclosed. In addition, methodology used to record fees (i.e., capitalized or expensed or billed separately outside of the fund or SMA) and the effect on the gross and net of fees performance calculations must be disclosed.
- **Activity before initial contribution:** If a fund or SMA commences operations prior to the initial cash contribution from the investors (e.g., a line of credit is used to finance 100% of initial operations), the nature of such activities and the treatment for performance must be disclosed.
- **TWR start date and end date:** Disclose the start date and end date used for the inception-to-date return and the treatment of partial period activity (i.e., included or excluded).

TWR Calculations

As noted above, the formula for calculating fund and investment level TWR is the same, and the formulas below apply to both.

Gross fund level TWR (before-fees)

Gross income return (before-fees)

$$\frac{\text{NII} + \text{AF} + \text{IFE}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Gross appreciation return (before-fees)

$$\frac{\text{Investment appreciation} + \text{Liability appreciation}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Gross total return (before-fees)

$$\frac{\text{NII} + \text{AF} + \text{IFE} + \text{Investment appreciation} + \text{Liability appreciation}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Net fund level TWR (after-fees)

Net income return (after-fees)

$$\frac{\text{NII}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Net appreciation return (after-fees)

$$\frac{\text{Investment appreciation} + \text{Liability appreciation} - \text{IFC}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Net total return (after-fees)

$$\frac{\text{NII} + \text{Investment appreciation} + \text{Liability appreciation} - \text{IFC}}{\text{NAV}_{t-1} + \text{TWC} - \text{TWD}}$$

Input Definitions

NII = Net investment income (after interest expense from liabilities, advisory fees and expensed incentive fees)

AF = Advisory fee (investment management) expense

IFE = Incentive fee expense and promote

IFC = Change in capitalized incentive fee and promote

NAV_{t-1} = Net asset value of investment at beginning of period (includes unrealized and realized losses on investments)

TWC = Time-weighted contributions

TWD = Time-weighted distributions

Internal Rate of Return (IRR) Overview

The internal rate of return (IRR) is perhaps the most widely accepted performance measure for strategic decision making for closed-end funds, whether reported at the individual investment level or the fund level, and in all cases, over a relevant holding period(s). Open-end funds do not typically calculate IRR; however, IRR may be calculated at the investment level for debt investments held by open-end funds as discussed below.

The IRR is the annualized implied discount rate that equates the present value of entity cash inflows to the sum of the present value of all entity cash outflows plus the present value of unrealized assets still held in the portfolio. Said differently, the IRR is the discount rate that (i) at the investment level, equates the cost of an investment with the present value of the cash generated by that investment, and (ii) at the fund level, equates the invested capital (contributions) to the present value of all returns (realized and unrealized distributions). IRRs are commonly used in the investment industry to measure the performance of a closed-end entity where the manager controls the timing of investor cash flows, and where the investor cannot unilaterally exit the fund via redemption (contrasted with TWRs, which are used to measure performance of the investment manager without regard to timing and size of investor cash flows).

The IRR is:

- A type of “money-weighted” return - an IRR “follows the money” meaning the timing of the investor’s cash flows do impact the IRR formula unlike with a TWR.
- The discount rate that results in the net present value of all future cash flows being equal to zero.

The IRR formula discounts cash flows F_1 through F_n back to the initial cash flow, F_0 .

$$F_0 + \frac{F_1}{(1+IRR)} + \frac{F_2}{(1+IRR)^2} + \frac{F_3}{(1+IRR)^3} + \dots + \frac{F_n}{(1+IRR)^n} = 0$$

Input Definitions

F_0 = Original investment in the entity

$F_1 - F_n$ = Net Cash Flows for each applicable period entity not liquidated

F_n = Last period’s operating cash flows plus an estimate of the net residual value

The IRR is often derived using a financial calculator such as the IRR and XIRR functions in Excel.

Gross and Net Fund Level IRR

Gross fund IRR is the fund’s rate of return prior to certain deductions (fund costs, expenses, management fees, manager promote, or a combination of these items). The net fund IRR reflects the rate of return after deducting various levels of fees and expenses, gross and net fund IRR should be presented pursuant to a hierachal approach to account for the different levels of fees and expenses coupled with clear disclosures to provide transparent performance reporting. As noted in the paper *“Reporting Standards: Gross and Net IRR: Adding transparency and comparability to closed-end fund performance and investor specific reporting”*¹⁶, reporting can be completed at various “levels” depending upon the reporting purpose.

¹⁶ [Research Paper: Gross and Net IRR, August 2019](https://reportingstandards.info/wp-content/uploads/2020/09/rs-handbook-vol-ii-research-gross-and-net-irr.pdf) (<https://reportingstandards.info/wp-content/uploads/2020/09/rs-handbook-vol-ii-research-gross-and-net-irr.pdf>)

A summary of the levels (i.e., hierarchy) is presented below.

Fund Level Reporting Hierarchy

Level 1: Gross IRR before investment management fees and fund costs. Level 1 should be presented net of investment level expenses.

- The Level 1 IRR can be calculated using two methods:
 - Level 1a – IRR reflects cash flows between a fund and its investments. As such, the IRR start date will precede or coincide with any subscription lines drawn.
 - Level 1b – IRR reflects cash flows between investors and the fund.

Level 2: Fund Gross IRR after deduction for fund costs but before deduction of recurring, transactional and performance-based investment manager fees and promote (carried interest).

Level 3: Level 2 less ongoing, recurring management fee

Level 4: Level 3 less performance-based investment management fees and promote (carried interest). This level represents the investor's return (i.e., Limited Partner (LP)). It does not represent the return of the fund's General Partner (GP). Level 4 is the fund level net IRR.

Investor Specific Reporting Hierarchy

Level 5: Individual LP specific reporting that captures the experience of a single investor, including all investor specific timing, fees, and costs.

Relationship to Total Global Expense Ratio (TGER)

Irrespective of whether Levels 1a or 1b are utilized as a measure of IRR, Levels 2 through 5 consider the same elements of fees and costs that are considered for calculating the Total Global Expense Ratio (TGER). The associated definitions for terms included in each TGER category can be found in the Global Definitions Database. Please refer to the TGER discussion below and also note that TGER is an annual measure where IRR considers TGER elements over the entire period of the IRR calculation. Therefore, the amounts may not be the same.

Investment Level IRR

Debt investment level IRRs provide information on how the performance of a single investment contributes to the performance of the fund taken as a whole. At the debt investment level, the inputs for the IRR formula are based on cash flows to and from the fund itself. Debt investment level IRRs can be calculated on a leveraged or unleveraged basis.

Unleveraged Debt Investment IRR

The initial cash flow for the unleveraged IRR calculation is the amount that is funded for the debt investment (the gross investment, before leverage is considered), which should include the outstanding principal balance and if applicable, any premium or discount for loan purchases, origination fees, and debt investment acquisition costs. It is industry practice that for newly originated loans, certain debt acquisition costs (also known as origination expenses) such as legal fees for loan documentation, third party reports (appraisal, environmental, and property condition reports), title, etc. are generally paid by the borrower, and thus would not be included in the IRR calculation since they are not an outflow by the investor. The Accounting section of this Manual discusses the accounting treatment for acquisition costs.

Other cash flows over the life of the debt investment may include additional loan fundings, amortization of principal, interest payments, fees paid by the borrower, loan maturity payments, participation sales (participation mortgages only), and realizations from REO properties. Net inflows are depicted as a positive cash flow while net outflows are shown as negative cash flows in the calculation. Investment level IRR calculations are typically calculated on at least a monthly basis.

The terminal cash flow is the loan repayment by the borrower if the debt investment has matured or prepaid. If the debt investment has not been repaid, the terminal cash flow will be the fair market value of the debt investment.

Leveraged Debt Investment IRR

The initial cash flow is the amount of equity capital that is funded for the debt investment (net of leverage), which should include the outstanding principal balance (net of leverage) and if applicable, any premium or discount for loan purchases, plus debt investment acquisition costs, less initial leverage balance (i.e., only reflect the net investment made by the fund).

Other cash flows over the life of the debt investment may include additional loan fundings, amortization of principal, interest payments, fees paid by the borrower, loan maturity payments, participation sales (participation mortgages only), and realizations from REO properties. Net inflows are depicted as a positive cash flow while net outflows are shown as negative cash flows in the calculation. In addition, new leverage placed on a debt investment after funding is treated as a positive cash flow in the calculation. Investment level IRR calculations are typically calculated on at least a monthly basis.

The terminal cash flow is the net loan repayment by the borrower (after the leverage repayment amount), if the debt investment has matured or prepaid. If the debt investment has not repaid, the terminal cash flow will be the fair market value of the debt investment less its respective leverage. The method for including leverage (i.e., fair value or cost) should be consistent over time and disclosed.

Additional Disclosures

When presenting IRRs, the following disclosures should be included:

- **Gross of fees:** Clearly disclose the type of fees deducted from the gross return and the level of gross IRR reporting. Level 1a, 1b, or 2 is preferred for gross of fee reporting.
 - Level 1a: Gross IRR before investment management fees and fund costs. Uses cash flows between the fund (regardless of cash source) and its investments.

- Level 1b: Gross IRR before investment management fees and fund costs. Uses cash flows between investors and the fund.
- Level 2: Fund Gross IRR after deduction for fund costs but before fees. Uses cash flows between investors and the fund after deduction of fund costs but before fees.
- **Net of fees:** Clearly disclose the types of fees deducted from the gross return to arrive at the net return. Clearly identify the net of fees returns presented for all investor classes. In situations where fees are billed separately and/or when different fee arrangements exist for investors, reporting must disclose the impact of these fees on IRR expressed, at a minimum, as a basis points range.
- **Time period and frequency of cash flows:** Disclose (a) the period for the calculation; and (b) the frequency of the cash flows used in the calculation. At a minimum, quarterly cash flows must be utilized.
- **Realized IRR end date:** Disclose the ending date of the realized IRR calculation. If final net assets of the fund/debt investment have not been distributed when the last investment is sold or otherwise disposed, the method used in determining the final distribution and IRR end date must be disclosed.
- **Use of subscription lines:** When subscription lines are used, disclose the date of the first investment of the fund or SMA and the date of the first capital call.

Multiples

Overview

Multiples are metrics that generally measure the amount earned on invested capital without the consideration of time such as the holding period of the investment. Given that multiples are expressed as ratios, with one financial input in the numerator and another in the denominator, they may require less time and financial data to calculate than IRR returns. Multiples can be presented independently, but they are commonly reported with IRRs. Equity multiples and IRRs are complimentary in that equity multiples simply measure the amount earned while IRRs consider not only the total earnings but also the time required. Non-performance multiples include the paid-in-capital multiple that measures the percentage of total investor capital that has been drawn down for investments.

Open-End Funds – Open-end funds typically report TWRs and do not typically calculate multiples.

Closed-End Funds – Closed-end funds calculate multiples since inception of the entity rather than a discrete period (month, quarter, etc.). Fund level multiples are always presumed to be shown after all fees and carried interest unless stated otherwise.

Recallable / Recycled Capital

Through the standard course of investment in a closed-end fund, investors may receive distributions from investments during the fund's defined investment period. If allowed within the fund documents, the manager can call this distributed capital down a second time for further use. This is considered recycled or reinvested capital because it was initially contributed to the fund by the investor, later returned as a distribution from the fund back to the investor, and then potentially re-contributed by the investor to be used towards a subsequent investment.

Accounting for recallable capital within reported equity multiples requires additional consideration as to how the re-contribution is handled from an accounting perspective. While recycling capital includes a re-contribution of capital, there are times when the capital never leaves the fund before it is contributed to a

new investment. Managers must choose how to present the equity multiple as the total contribution of capital will not be picked up from an investor perspective if the recallable capital is not distributed back to investors before being called back. The most conservative approach would be to consider any re-contributed capital as a new part of the denominator as this would be a “dollar being used again.” This can be challenging depending on how the accounting relating to the recalled capital is done; if the capital never leaves the fund, there may need to be an outside adjustment to be able to accurately reflect the contribution when it is recalled. The method for accounting for recallable capital in calculating equity multiples should be consistent across time and disclosed.

Investment Multiple or Total Value to Paid-In Capital Multiple (TVPI)

This investment multiple gives users information regarding the value of the fund relative to its cost basis, not taking into consideration the time invested. TVPI is equal to the sum of the total distributions since inception plus the fund’s residual value divided by the total capital called since inception. As an example, a fund level TVPI multiple equal to 1.50 typically indicates that the investors have \$1.50 of value in the fund (including distributions previously received) for every \$1 invested.

Paid-In Capital Multiple or Paid-In Capital to Committed Capital Multiple (PIC)

At the fund level, this ratio gives information regarding how much of the total investor commitments have been called. The paid-in capital is the aggregate amount of committed capital transferred to a fund by investors. For a fund level PIC, typically a ratio such as 0.80 is read as 80% of the fund’s capital commitments have been contributed by investors.

Multiple Formulas

Paid-In Capital Multiple or Paid-In Capital to Committed Capital Multiple (PIC)

$$\frac{\text{PIC}}{\text{CC}}$$

Investment Multiple or Total Value to Paid-In Capital Multiple (TVPI)

$$\frac{\text{TV}}{\text{PIC}}$$

Realization Multiple or Cumulative Distributions to Paid-In Capital Multiple (DPI)

$$\frac{\text{D}}{\text{PIC}}$$

Residual Multiple or Residual Value to Paid-In Capital Multiple (RVPI)

$$\frac{\text{RV}}{\text{PIC}}$$

Input Definitions

PIC = Paid in Capital; All capital drawn down including the amount recalled.

CC = Committed Capital
Fund Level: Cumulative fund PIC plus unfunded capital commitments.
Investment Level: Cumulative investment PIC plus unfunded capital earmarked for investment.

TV = Total Value
Fund (or SMA) Level: Sum of residual fund net assets (NAV) plus aggregate fund distributions to investors since inception.
Investment Level: Sum of residual investment net assets (NAV) plus aggregate distributions to investors / the fund / SMA which were attributed to the investment.

D = Total Distributions
Fund Level: Aggregate fund distributions paid to investors since inception.
Investment Level: Aggregate investment distributions paid to the fund since inception.
Note that distributions since inception within the Reporting Standards include all distributions paid regardless of type (i.e., operations and return of capital).

RV = Residual Value
RV is defined as NAV representing the remaining equity of a fund or investment.
Fund Level: Net asset value (NAV) of the fund.
Investment Level: Net asset value (NAV) of the investment.

Total Global Expenses Ratio (TGER)

TGER is a principles-based measure that was developed to facilitate comparison of fees and costs among investment funds that operate across different regions of the globe. The fees and costs included in TGER are all components of the fund's expense load. TGER was developed in collaboration with INREV, ANREV, and the Reporting Standards.

Although rooted in authoritative guidance and industry standards, TGER is not meant to be prescriptive, thus diversity in practice may occur as with application of any principles-based guidance. TGER is a stand-alone metric and does not conflict with other industry standards that include fee and expense information required by GAAP, such as Related Party disclosures and expense ratios in financial statement statements. Although these expense ratios may be similar in some ways to TGER, the components of the GAAP ratios may be different.

A historic TGER based on the time-weighted average gross asset value of the fund over 12 months is typically to be reported annually. A prior year comparison of fees and costs may be reported quarterly. For closed-end funds, TGER is best considered over a longer time horizon and accordingly, in addition to annual reporting of TGER, a since-inception TGER may also be reported to show the trending of the expense burden over time or at any given point within a fund's lifecycle. A since-inception based TGER must be clearly labeled and include the date of inception.

Note that definitions for all fees and costs are included in the Global Definitions Database.

TGER Formula

$$\frac{MF + TF + PF + VC + VT}{\text{Time Weighted Average GAV}}$$

Input Definitions

Fees Charged by the Investment Manager

MF = Ongoing Management Fees – Fund and asset management fees charged by the investment manager for services regarding the everyday running of the vehicle and its portfolio.

TF = Transaction Based Fees – Fees charged by the investment manager for services regarding the acquisition/disposition of investments.

PF = Performance Fees – Fees charged by the investment manager after a predetermined investment performance has been attained.

Costs Charged by Third Parties

VC = Vehicle Costs – Third party costs incurred predominantly at the vehicle level to maintain and grow its operations.

VT = Vehicle Related Taxes – Expenses related to the tax structure and position of the vehicle.

Ratio Denominator

GAV = Gross Asset Value – Total assets as determined by the vehicle's accounting standards, e.g., US GAAP, IFRS, and adjusted for specific elements to arrive at a market-relevant gross asset value in accordance with INREV Guidelines/NCREIF PREA Reporting Standards.

Appendix A2 of the Reporting Standards Handbook Volume II: Manuals Performance and Risk provides details of fees and costs within each TGER category. The TGER fees and costs categories for real estate debt and equity funds are similar; however, the following category adjustments may be needed for debt investment: i) Replace Property acquisition/disposition fees with Investment acquisition/disposition fees, if any, and include in TGER; ii) Replace Property management fees with Servicing/Special Servicing fees and exclude from TGER; iii) Add borrower paid fees, if any, that are retained by the investment manager and not contributed to the fund (e.g., commitment, application, underwriting fees) and include in TGER.

See Appendix A3 of the Reporting Standards Handbook Volume II: Manuals Performance and Risk for additional information about the calculation of GAV.

Note the contractual investment manager compensation that represents the spread between the before and after fees TWR may differ from the above defined fees charged by the manager.

It should be noted that funds utilizing the non-operating model may be required to report an expense ratio in accordance with GAAP that may differ from TGER.

Additional information on TGER and related ratios can be found in the Guidance Paper *"Total Global Expense Ratio: a globally comparable measure of fees and costs for real estate investment vehicles"* on the Reporting Standards website www.reportingstandards.info.

Additional TGER Disclosures

- **Use of rebates:** TGER disclosures must indicate whether management fee adjustments including rebates, fee reduction, fee waivers, and transaction costs are utilized by the fund. The management

fees used to calculate TGER should include these reductions (i.e., are presented net of any such adjustments).

- **Types of fees and costs included in the calculation:** TGER disclosures must indicate the types of fees and costs included in TGER. Additionally, information on fees paid to the manager is captured within related party disclosures in the financial statement notes
- **Use of estimates:** TGER disclosures must include a description of the types of estimates utilized in the calculation for TGER including, but not limited to, information not available as of the reporting period; and estimates surrounding GAV (or NAV, if NAV is presented).
- **Fees paid in lieu of third-party services:** To the extent that fees are paid to the manager for services that would otherwise be paid to a third party and do not fall within TGER costs, such fees must be disclosed. An example of such fees for debt funds are loan servicing fees paid to an affiliate of the investment manager.

Leverage: Financial Leverage and Structural Leverage

A debt fund that employs leverage as part of its strategy generally uses financial and/or structural leverage to enhance returns. An unlevered debt fund generally employs a strategy in which it primarily invests in senior investments in whole loans and employs no leverage at the fund level, though it may have structural leverage if it invests in junior debt investments.

Financial Leverage – Financial leverage for debt funds may include, but is not limited to, subscription lines, CLO financings, warehouse/repo lines, note-on-note financing, and unsecured or secured fund level debt. These financings are generally reported within the fair value GAAP based financial statements and usually can be identified directly on or embedded within the Statement of Net Assets.

Structural Leverage – Structural leverage for debt investments occurs when a fund's investment is subordinate to other debt secured by the same collateral. The other debt is senior to the fund's debt investment, and accordingly the fund's debt investment will be repaid only after the other debt is repaid. Types of subordinate debt with implied structural leverage include B-notes, mezzanine debt, preferred equity, and junior securitized debt bonds (CLOs, CDOs, or CMBS bonds that are junior to outstanding senior bonds). It should be noted that the amount of debt that is senior to a fund's debt investment is not shown on the fund's financial statements and may not be disclosed in the notes, since the fund has not made a direct investment in the debt which is senior to the fund's debt investment.

It is best practice to disclose information specific to financial leverage and structural leverage in the recurring reporting to investors.

For purposes of the Reporting Standards, the leverage spectrum serves to facilitate a clear understanding, enhance comparability, and provide consistency when defining types of leverage used by funds. The spectrum of types of leverage generally employed by debt funds is:

- Tier 1: Subscription lines backed by commitments (drawn balance); unsecured and/or secured fund level debt; investment level secured debt. Tier 1 leverage generally includes the fund's financial leverage.
- Tier 2: Debt senior to a junior debt investment; forward commitments; interest rate hedging instruments. Tier 2 generally includes the fund's structural leverage.
- Tier 3: Carve-outs related to leverage; contingent liabilities: credit enhancements; fund level guarantee/investor guarantee; letters of credit

Fund Tier 1 (T1) Leverage Percentage

$$\frac{\text{Fund T1 total leverage (C)}}{\text{Total gross assets (as defined)}}$$

Operating Model

$$\frac{\text{Fund T1 total leverage (C)}}{\text{Total Balance Sheet Assets} - (\text{Joint Venture} * \text{Partner economic share of total assets})}$$

Non-Operating Model

$$\frac{\text{Fund T1 Total Leverage (C)}}{\text{Total balance sheet assets} + (\text{Fund economic share of total joint venture} * \text{liabilities})}$$

Financial Leverage Ratio (Debt/Equity)

$$\frac{\text{Fund T1 total leverage (C)}}{\text{Total investor capital}}$$

Weighted Average Interest Rate of Fund T1 Leverage

Calculate separately for Fixed-Rate leverage and Floating-Rate leverage.

$$\frac{P_1 * l_1}{P} + \frac{P_2 * l_2}{P} + \frac{P_3 * l_3}{P} + \dots$$

Weighted Average Remaining Term of Fund T1 Leverage

Calculate separately for Fixed-Rate leverage and Floating-Rate leverage.

$$\frac{P_1 * r_1}{P} + \frac{P_2 * r_2}{P} + \frac{P_3 * r_3}{P} + \dots$$

Input Definitions

Fund T1 Total Leverage (C) = P = Fund T1 leverage at cost, which is the remaining principal balance

P_i = Principal balance of each liability

l_i = Interest rate of each liability (years)

r_i = Remaining term of each liability (years)

As used herein, Joint Venture includes investments that are other than wholly-owned by the fund including, but not limited to: co-investments, limited partnerships, investments in C-corporations, etc.

5.03 Real Estate Debt Risk and Yield Metrics

The real estate debt investment industry uses metrics and financial ratios that provide information about a debt investment relative to its underlying real estate collateral. The metrics provide a basis to compare different debt investments and/or to see the change in risk of a given debt investment based on the change in its credit metrics. Thus, it is critical that the metrics are clearly labeled to disclose exactly what is being

measured (e.g., actual or stabilized DSCR/DY/LTV; the time period of cash flows; current or fully funded loan balance; etc.).

Investment Metrics

Debt Service Coverage Ratio (DSCR) is the ratio of a property's net operating income (NOI) or net operating cash flow (NCF) to the debt service payments on the loan secured by the property, calculated by dividing the NOI or NCF by total debt service. DSCR is a measure of a mortgaged property's ability to meet monthly debt service payments; thus, higher ratios indicate less risk. A DSCR less than 1.0 means that there is insufficient cash flow from the property to cover debt payments. DSCR should be labeled to include what inputs are used for the calculation.

For example: i) whether the numerator is property NOI or NCF; ii) what time period and property status is used (e.g., quarterly, prior year, current, stabilized); iii) the NOI or NCF treatment of interest rate caps in the metrics from the perspective of the borrower, and whether the debt service payments in the denominator account for the cap/derivative; and iv) the NOI or NCF treatment of guarantees (e.g., an interest reserve guaranty) and whether or not the DSCR reported accounts for the guarantee.

Loan to Cost (LTC) is the ratio of the unpaid principal balance of a debt investment to the property (collateral) cost. LTC should be labeled to indicate what inputs are used for calculation. For example: i) numerator: at origination, current outstanding, or fully funded loan balance; and ii) denominator: construction cost or acquisition cost paid by the borrower.

Loan to Value (LTV) is the ratio of the unpaid principal balance of a debt investment to the property (collateral) value. LTV should be labeled to indicate what inputs are used for calculation. For example: i) numerator: at origination, current outstanding, or fully funded loan balance; and ii) denominator: at origination, current, or stabilized property value. Property value should be determined in accordance with the fund's valuation policy for valuing underlying real estate collateral. Refer to the Valuation section of this Manual for a discussion of valuation of underlying real estate collateral, see sections 4.02 and 4.03 .

Debt Yield (DY) is the property's NOI expressed as a percentage of the unpaid principal balance of a debt investment. Debt yield is used as a measure of risk that is derived from the actual loan balance, rather than a subjective measure of value, such as the loan to value ratio which uses a subjective opinion of value as a component. DY should be labeled to indicate what inputs are used for the calculation.

Current Yield is the debt investment's annual interest income expressed as a percentage of the current fair value of the debt investment.

Yield to Maturity (YTM) is the expected annual rate of return from a debt investment given its current market value, its scheduled payments, and a held to maturity time horizon. YTM is essentially the debt investment's IRR if held to maturity.

Interest Rate is the debt investment's contractual interest rate, with additional detail that may include:

- **Spread**, which is the contractual spread expressed in basis points over the base rate and may include spread to SOFR, spread to treasury, spread to swap, or option-adjusted spread.
- **Rate cap or floor** (if applicable) is the maximum or minimum interest rate, with an interest rate cap generally being an option purchased by the borrower that limits the interest rate to a specified maximum.

- **Rate step-up** (if applicable) is a previously agreed upon increase in the mortgage rate, either contractual upon a certain date or triggered by certain loan level events.
- **Fixed-rate or floating-rate**

Maturity Date is the contractual termination of the debt instrument requiring repayment of the debt.

Extension Options (if applicable) are provisions permitting extension of the original term of the debt instrument. Such provisions are generally subject to the debt instrument achieving certain loan level credit metrics and payment of an extension fee.

Real estate debt risk metrics can be calculated at the fund and/or investment levels as shown below:

Investment Level

The weighted average DSCR, LTV, LTC, or DY of the fund's debt investments is equal to the metric for each debt investment weighted by each investment's unpaid principal balance.

Debt Service Coverage Ratio (DSCR)

$$\frac{\text{Property (loan collateral) NOI or NCF}}{\text{Debt service payments (principal and interest) of debt investment}}$$

Debt Service Coverage Ratio (DSCR) including Subordinate Debt

$$\frac{\text{Property (loan collateral) NOI or NCF}}{\text{Debt service payments (principal and interest) of subordinate and senior debt investments on the property}}$$

Debt Yield (DY)

$$\frac{\text{Property (loan collateral) NOI}}{\text{Unpaid principal balance of debt investment}}$$

Debt Yield (DY) including Subordinate Debt

$$\frac{\text{Property (loan collateral) NOI}}{\text{Unpaid principal balance of subordinate and senior debt investments on the property}}$$

Current Yield

$$\frac{\text{Interest income of debt investment}}{\text{Market Value of debt investment}}$$

Yield to Maturity (YTM)

$$FV_0 = \frac{F_1}{(1+YTM)} + \frac{F_2}{(1+YTM)^2} + \frac{F_3}{(1+YTM)^3} + \dots + \frac{F_n}{(1+YTM)^n}$$

Input Definitions

FV_0 = Fair Value of debt investment at time zero

$F_1 - F_n$ = Coupon payment (principal and Interest) for each applicable period

F_n = Debt investment balance to be paid at loan maturity

Loan to Cost (LTC)

$$\frac{\text{Unpaid principal balance of debt investment}}{\text{Property (loan collateral) ending cost}}$$

Loan to Value (LTV)

$$\frac{\text{Unpaid principal balance of debt investment}}{\text{Property (loan collateral) value}}$$

First \$ Risk LTV (attachment point) for Subordinate Debt

$$\frac{\text{Unpaid principal balance of loans senior to subordinate debt investment}}{\text{Property (loan collateral) value}}$$

Last \$ Risk LTV (detachment point) for Subordinate Debt

$$\frac{\text{Unpaid principal balance of subordinate debt investment} + \text{Unpaid principal balance of senior loans}}{\text{Property (loan collateral) value}}$$

APPENDIX A – REPORTING STANDARDS VOLUME I DEBT FUND CHECKLIST

The Reporting Standards is a two-volume handbook. Volume I houses all the required and recommended elements of reporting. Volume II includes checklists, discipline specific manuals, and other resources.

Compliance with the Reporting Standards is measured on an account or fund basis. For an account or fund to claim compliance with the Reporting Standards, all required elements must be reported in the account or fund reporting and a statement of compliance may be included in such reporting. Recommended elements are considered best practice and may be applicable in certain situations.

The Debt Fund Checklist has been created as a reference guide that includes the relevant reporting elements grouped by associated discipline (portfolio management, performance, asset management, financial reporting, and valuation), along with the frequency of reporting, required or recommended status, fund type applicability, and Volume I reference in an easy-to-read format. The Debt Fund Checklist should be used in conjunction with and not without reference to Volume I.

Additional information about the Reporting Standards (including checklists, discipline specific manuals, and other resources) can be found at www.reportingstandards.info.

The attached Debt Fund Checklist is provided for reference. Note that it is updated and reviewed as part of the Volume I review process, which may be different timing from updates and review of the Debt Fund Manual.

APPENDIX A – REPORTING STANDARDS VOLUME I DEBT FUND CHECKLIST

Handbook Volume I

Reporting Standards – Debt Funds					
Disciplines	Element description	Frequency	Required or recommended element	Applicable account type	Reference
Portfolio management	Name or identifier	Quarterly	Required	All	PM.01
	Contact	Quarterly	Required	All	PM.02
	Inception date	Quarterly	Required	All	PM.03
	Structure	Annually	Required	All	PM.04
	Style and strategy	Annually	Required	All	PM.05
	Portfolio diversification by:	Quarterly	Required	All	PM.06
	• Investment/property type				
	• Region/location				
	• Nature of investment (life cycle)				
	• Debt type				
	• Interest rate type				
Performance and Risk	Final closing date	Annually	Required	Closed-end	PM.07
	Scheduled termination date	Annually	Required	Closed-end	PM.08
	Management discussion of performance relative to objective	Quarterly	Recommended	All	PM.09
	Total and Component Time-Weighted Return (TWR) – Gross of Fees and Total TWR Net of Fees. Periods: quarterly, 1 yr., 3yr., 5yr., 10yr., and since-inception (SI)	Quarterly	Required	Open-end	PR.01
	Total and Component Time-Weighted Return (TWR) – Gross of Fees and Total TWR Net of Fees. Periods: quarterly, 1 yr., 3yr., 5yr., 10yr., and since-inception (SI)		As requested by investor	Closed-end	PR.01
	Total and Component Time-Weighted Return (TWR) – Gross of Fees and Total TWR Net of Fees. Periods: quarterly, 1 yr., 3yr., 5yr., 10yr., and since-inception (SI)		As requested by investor	SMA	PR.01
	Disclosures accompanying TWR		Required when TWR is reported	All	PR.01.1-01.7
	Net Asset Value	Quarterly	Required	All	PR.03
	Fund Tier 1 (T1) Total Leverage – at cost	Quarterly	Required	All	PR.04
	Fund T1 Leverage Percentage	Quarterly	Required	All	PR.05
Risk	Since-inception Internal Rate of Return (IRR) - Gross and Net of fees	Quarterly	Required	Closed-end	PR.06
	Since-inception Internal Rate of Return (IRR) - Gross and Net of fees		As requested by investor	SMA	PR.06
	Disclosures accompanying IRR		Required when IRR is reported	All	PR.06.1-06.5
	Paid-in capital multiple	Quarterly	Recommended	Closed-end	PR.07
	Investment multiple	Quarterly	Recommended	Closed-end	PR.08
	Since-inception paid-in capital	Quarterly	Required	Closed-end	PR.13
	Weighted average interest rate of Fund T1 Leverage	Quarterly	Recommended	All	PR.15
	Weighted average remaining term of fixed-rate Fund T1 Leverage	Quarterly	Recommended	All	PR.16
	Weighted average remaining term of floating rate Fund T1 Leverage	Quarterly	Recommended	All	PR.17
	Unfunded commitments	Quarterly	Recommended	Closed-end	PR.19
Other	Redemptions for quarter	Quarterly	Recommended	Open-end	PR.20
	Total subscribed commitments	Quarterly	Recommended	Open-end	PR.21
	Total redemption requests	Quarterly	Recommended	Open-end	PR.22
	Total Global Expense Ratio (TGER)	Annually	Recommended in 2023, Required in 2024 and beyond	Open-end and Closed-end	PR.23
	Disclosures accompanying TGER		Required when TGER is reported		PR.23.1-23.4

APPENDIX A – REPORTING STANDARDS VOLUME I DEBT FUND CHECKLIST

Handbook Volume I

Reporting Standards – Debt Funds					
Disciplines	Element description	Frequency	Required or recommended element	Applicable account type	Reference
Asset management	Financial leverage ratio	Quarterly	Recommended	All	PR.24
	Distribution yield	Quarterly	Recommended	Open-end	PR.25
	Loan to value or loan to cost	Quarterly	Required	All	AM.04
	Weighted average interest rate	Quarterly	Recommended	All	AM.05
	Debt yield	Quarterly	Recommended	All	AM.06
Financial Reporting	Debt service coverage ratio	Quarterly	Recommended	All	AM.07
	Condensed Fair Value (FV) GAAP-based financial reporting	Quarterly	Required	All	FR.01
	Fair Value (FV) GAAP-based financial statements	Annually	Required	All	FR.02
	Financial statement audits	Annually	Required	All	FR.03
Valuation	Schedule of Investments	Annually	Required	All	FR.04
	Valuation policy statement	Annually	Required	All	VA.01
	Required to be maintained and consistently applied				
Compliance	Valuation policy			All	VA.02
	Internal valuations	Quarterly	Required	All	VA.03
	External valuations of collateral at origination	One-time	Recommended	All	VA.07
Compliance	Statement of Compliance	Quarterly	Recommended	All	

APPENDIX B – NCREIF/CREFC DEBT FUND AGGREGATE

The NCREIF/CREFC Open-end Debt Fund Aggregate (Aggregate) is a fund-level aggregate comprising open-end funds that provide credit and financing to borrowers who own commercial real estate. The Aggregate is intended to enhance investors' interest & understanding of the rewards and risk of private real estate debt funds, which may lead to increased allocations to debt, benefiting managers, investors, and commercial real estate finance industry professionals.

- The Aggregate presents equal-weighted, fund-level TWR information from open-end debt funds.
- The Aggregate is not a benchmark or an index.
- The Aggregate includes funds that market themselves as Core, Core-plus, or Value-add. Currently the Aggregate contains more funds in the Core-plus space.
- The Aggregate contains both levered and unlevered debt funds.
- The Aggregate is based on fund-level data collection only. Individual debt investment data is not collected.
- The Aggregate contributors calculate quarterly NAVs and returns on a fair value basis.
- The Aggregate uses four quarters to annualize cumulative quarterly returns.
- For Gross fund level TWR (before-fees) and Net fund level (after-fees) TWR purposes, the Aggregate only considers investment management fees, incentive fees, and carried interest (also known as "promote") when distinguishing between gross and net. The Aggregate generally presents TWRs gross of fees while net of fee TWRs may be presented for informational purposes and as a proxy for the average fees charged.
- NCREIF and CREFC are creating standardized definitions for three distinct styles of debt fund investing. These style definitions will help in the goal of ultimately creating separate debt fund indices by style.

More information about the Aggregate is available here: [NCREIF/CREFC Open-End Debt Fund Aggregate](#)

APPENDIX C – ILLUSTRATIVE FINANCIAL STATEMENTS

Appendix C-1: Illustrative Financial Statements – Gross (Operating Model) Presentation

The accompanying financial statements are illustrative only and provide a general format for annual financial statements prepared on a fair value basis of accounting. Disclosures included in the illustrative financial statements are not intended to be comprehensive and are not intended to establish preferences among alternative disclosures.

Note: There is diversity in practice amongst private real estate and debt funds from a report presentation standpoint. For purposes of the attached example financial statements, the following bullet points highlight the presentation utilized herein:

- The accompanying financial statements generally represent financial statements and example disclosures for an open-end debt fund presenting as an investment company (ASC 946) based on the operating (gross) model
 - Certain real estate and debt funds that report as investment companies have determined that it is more appropriate to report on the operating (gross) model given that investors are accustomed to seeing gross presentation within the financial statements. This presentation diverges from ASC 946 as written, which is an overall net presentation. This has led to interpretation around the application of certain accounting guidance, such as consolidation concepts, and other gross vs. net presentation items. This may lead to differences in presentation between real estate and debt funds presenting on an operating (gross) versus non-operating (net) model; however, should not impact the overall net asset value of the real estate fund.
- The gross presentation presented herein would also be applicable to separate account debt funds that present their financial statements in accordance with ASC 960, *Accounting and Reporting by Defined Benefit Pension Plans*. However, certain information contained within these example financial statements, such as the Schedule of Investments and Financial Highlights, are not required for ASC 960 reporters.
- The accompanying financial statements are presented on a comparative basis; however, single year presentation is also an acceptable form of presentation in accordance with GAAP.

Refer to Appendix C-2 for an example of non-operating model presentation. Also note that certain funds may issue single-year financial statements only.

XYZ Debt Fund

Operating (Gross) Model

Consolidated Financial Statements for the Years Ended December 31, 20CY and 20PY

XYZ DEBT FUND

CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Assets:		
Real estate investments - at fair value:		
Mortgage and other loans receivable (cost of \$113,750 and \$134,756, respectively)	\$ 115,750	\$ 136,818
Investment in real estate preferred equity (cost of \$73,099 and \$41,861, respectively)	78,910	42,771
Debt securities (cost of \$20,000 and \$0, respectively)	25,000	-
Real estate owned (cost of \$23,509 and \$0, respectively)	22,000	-
 Total real estate investments	 \$ 241,660	 \$ 179,589
Cash and cash equivalents	88,905	62,692
Interest and other receivables	3,178	2,131
Other assets	3,591	5,695
 Total assets	 \$ 337,334	 \$ 250,107
 Liabilities:		
Line of credit - at fair value (cost of \$43,000 and \$51,000, respectively)	43,000	51,000
Fund level notes payable - at fair value (cost of \$80,000 and \$65,000, respectively)	77,115	61,690
Repurchase facilities - at fair value (cost of \$32,500 and \$0, respectively)	32,500	-
Investment management fees payable	1,350	1,330
Other liabilities	2,900	2,055
 Total liabilities	 \$ 156,865	 \$ 116,075
 Net assets:	 \$ 180,469	 \$ 134,032

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund operating model financial statements

XYZ Debt Fund
Consolidated Schedules of Investments
As of December 31, 20CY AND 20PY (in thousands)

Investment	City, State	Loan Type	Maturity Date	Interest Rate (fixed/variable)	December 31, 20CY		December 31, 20PY	
					Cost	Fair Value	Cost	Fair Value
Mortgage and other loans receivable								
Apartment								
Loan 1	City, State	Senior	1/1/XXXX	xx.x%/xx.x%	\$ 43,585	\$ 43,585	\$ 23,509	\$ 25,571
Loan 2	City, State	Mezz	1/1/XXXX	xx.x%/xx.x%			\$ 42,097	\$ 42,097
Total apartment					\$ 43,585	\$ 43,585	\$ 65,606	\$ 67,668
Industrial								
Loan 3	City, State	Senior	1/1/XXXX	xx.x%/xx.x%	\$ 70,165	\$ 72,165	\$ 69,150	\$ 69,150
Total industrial					\$ 70,165	\$ 72,165	\$ 69,150	\$ 69,150
Total mortgage and other loans receivable (x% of NAV)					\$ 113,750	\$ 115,750	\$ 134,756	\$ 136,818
Preferred equity in real estate								
Apartment								
Pref 1	City, State	Pref	1/1/XXXX	xx.x%	\$ 7,865	\$ 8,820	\$ 2,701	\$ 2,978
Pref 2	City, State	Pref	1/1/XXXX	xx.x%	\$ 27,641	\$ 28,845	\$ 24,641	\$ 24,782
Total apartment					\$ 35,506	\$ 37,665	\$ 27,342	\$ 27,760
Industrial								
Pref 3	City, State	Pref	1/1/XXXX	xx.x%	\$ 18,519	\$ 20,749	\$ 14,519	\$ 15,011
Pref 4	City, State	Pref	1/1/XXXX	xx.x%	\$ 19,074	\$ 20,496	\$ 14,519	\$ 15,011
Total industrial					\$ 37,593	\$ 41,245	\$ 14,519	\$ 15,011
Total preferred equity in real estate (x% of NAV)					\$ 73,099	\$ 78,910	\$ 41,861	\$ 42,771
Debt securities								
Investment 1	Various	CMBS	1/1/XXXX	xx.x%	\$ 20,000	\$ 25,000	\$	\$
Total debt securities (x% of NAV)					\$ 20,000	\$ 25,000	\$	\$
Investment	City, State	Ownership	Acquisition Date	Square Feet (Unaudited)	December 31, 20CY		December 31, 20PY	
					Cost	Fair Value	Cost	Fair Value
Real estate owned								
Apartment								
WO	City, State	WO	1/1/XXXX	xxx	\$ 23,509	\$ 22,000	\$	\$
Total apartment					\$ 23,509	\$ 22,000	-	-
Total real estate owned (x% of NAV)					\$ 23,509	\$ 22,000	-	-
Total Real Estate Investments								
WO - Wholly Owned Investment								
Mezz - Mezzanine loan								
Pref - Preferred equity								
CMBS - Commercial mortgage-backed security								

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund operating model financial statements

Note: GAAP requirement is to only disclose assets that are greater than 5% of NAV but funds may elect to disclose all assets

XYZ DEBT FUND

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Investment income:		
Interest income on mortgage and other loans receivable	\$ 38,140	\$ 25,572
Fee income	1,316	9,643
Income from investment in real estate preferred equity	15,164	13,424
Rental revenue from real estate owned	2,500	-
Other income	11	13
Total investment income	57,131	48,652
Expenses:		
Interest expense	22,467	12,127
Real estate expenses and taxes	1,450	-
General and administrative expense	1,909	2,454
Investment management fees	5,400	5,320
Financing costs	992	2,262
Total expenses	32,218	22,163
Net investment income	24,913	26,489
Net realized gain (loss):		
Net proceeds from investment pay-off / sale	11,657	-
Less: cost of investments paid-off / sold	(10,101)	-
Realization of previously recorded unrealized gain (loss) on investments disposed	(267)	-
Net realized gain from pay-off / sale of investments	1,289	-
Net unrealized gain (loss):		
Unrealized gain on mortgage and other loans receivable	2,000	2,389
Unrealized gain on preferred equity in real estate	5,168	1,385
Unrealized gain on debt securities	5,000	-
Unrealized loss on real estate owned	(3,571)	-
Unrealized gain on repurchase facilities	-	-
Unrealized gain (loss) on notes payable	(425)	1,550
Net realized and unrealized gain	9,461	5,324
Increase in net assets resulting from operations	\$ 34,374	\$ 31,813

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund operating model financial statements

XYZ DEBT FUND**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)**

	XYZ DEBT FUND
Net assets - December 31, 20PY-1	\$ 95,799
From operations:	
Net investment income	26,489
Net realized and unrealized gain	5,324
Increase in net assets resulting from operations	<u>31,813</u>
From capital transactions:	
Contributions	11,250
Distributions	<u>(4,830)</u>
Increase in net assets resulting from capital transactions	6,420
Increase in net assets	<u>38,233</u>
Net assets - December 31, 20PY	\$ 134,032
From operations:	
Net investment income	24,913
Net realized and unrealized gain	9,461
Increase in net assets resulting from operations	<u>34,374</u>
From capital transactions:	
Contributions	14,388
Distributions	<u>(2,325)</u>
Increase in net assets resulting from capital transactions	12,063
Increase in net assets	<u>46,437</u>
Net assets - December 31, 20CY	\$ 180,469

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund operating model financial statements

XYZ DEBT FUND

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Cash flows from operating activities:		
Increase in net assets resulting from operations	\$ 34,374	\$ 31,813
Adjustments to reconcile increase in net assets resulting from operations to net cash flows from operating activities:		
Investments - at fair value:		
Net realized and unrealized gain	(9,461)	(5,324)
Investments in mortgage and other loans receivable	(3,063)	(51,000)
Principal collections on mortgage and other loans receivable	560	-
Investments in preferred equity in real estate	(41,339)	(16,600)
Net proceeds from investment pay-off / sale	11,657	-
Investment in debt securities	(20,000)	-
Changes in other assets and liabilities:		
Interest receivable	(1,047)	(1,050)
Other assets	2,104	3,434
Investment management fees payable	20	(155)
Other liabilities	845	(110)
Net cash flow used in operating activities	(25,350)	(38,992)
Cash flows from financing activities:		
Proceeds from line of credit	12,500	21,792
Proceeds from notes payable	15,000	35,000
Principal payments on line of credit	(20,500)	(8,000)
Principal payments on notes payable	-	(10,000)
Proceeds from repurchase facilities	37,500	-
Repayments to repurchase facilities	(5,000)	-
Payment of financing costs	-	(690)
Contributions	14,388	11,250
Distributions	(2,325)	(4,830)
Net cash flow provided by financing activities	51,563	44,522
Net change in cash and cash equivalents	26,213	5,530
Cash and cash equivalents — Beginning of year	62,692	57,162
Cash and cash equivalents — End of year	\$ 88,905	\$ 62,692
Supplemental cash flow information:		
Cash paid for interest during the year	\$ 21,805	\$ 11,214
Conversion of mortgage notes receivable to real estate and improvements through deed in lieu of foreclosure (See Note 4)	\$ 25,571	-

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund operating model financial statements

XYZ DEBT FUND

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 20CY AND 20PY (\$ in thousands)

1. ORGANIZATION

XYZ Real Estate Fund, LP (referred to with its subsidiaries collectively as the “Fund”) is a Delaware limited partnership formed on XXXXXX and which commenced operations on XXXXXX. The Fund is organized as a perpetual life, open-ended debt investment fund, in accordance with the Partnership Agreement (the “Agreement”) between General Partner LLC (the “General Partner”), a Delaware limited liability company, and other investors (the “Limited Partners”).

The Fund is in the business of making investments in senior loans, mortgages, structured debt products, preferred equity, and mezzanine loans to commercial real estate assets located in the United States.

The managing member of the General Partner is a wholly-owned subsidiary of the Investment Advisor [Manager] (“ABC” or “Investment Advisor [Manager]”) and has ultimate responsibility for the management and operations of the Fund.

Total unfunded capital commitments from investors were \$XXX and \$XXX as of December 31, 20CY and 20PY, respectively.

The term of the Fund shall continue in existence until XXXXXX pursuant to the provisions of the Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 946, *Financial Services – Investment Companies* (“ASC 946”), the Fund qualifies as an investment company. The accompanying consolidated financial statements of the Fund have been presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of each of the Fund’s wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The Fund’s estimates of fair value are based on the best information available to management at the date of valuation. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Real estate and capital markets are cyclical in nature. Property and debt investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. As a result, determining real estate and debt investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Debt investments – Investments in mortgage and other loans receivable, preferred equity in real estate, and debt securities are carried at fair value in accordance with FASB ASC 820, *Fair Value Measurement* ("ASC 820"). See Note 3 for further detail.

Real estate owned — Investments in real estate owned are carried at fair value. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred.

The fair value of the real estate property received through foreclosure represents the initial component of the real estate investment costs.

[Refer to Section 3.06 of the Debt Fund Manual for further background on initial accounting treatment.]

Investment valuation — Debt and real estate investment values are based upon independent appraisals, estimated sales proceeds or the Investment Advisor's opinion of value. Such values have been identified for investment and portfolio management purposes only; the Fund reserves its right to pursue full remedies for the recovery of its investments and other rights. The fair value of real estate investments does not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments.

The estimated fair value of debt and real estate related assets is determined through an appraisal process. These estimated fair values may vary significantly from the prices at which the investments would sell as market prices of these investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices.

Cash and cash equivalents — Cash and cash equivalents are comprised of cash and short-term investments with original maturity dates of less than ninety days from the date of purchase.

The Fund invests its cash primarily in deposits and money market funds with commercial banks. At times, cash balances at a limited number of banks and financial institutions may exceed federally insured amounts. The Fund believes it mitigates credit risk by depositing cash in or investing through major financial institutions. In addition, in the normal course of business, the Fund extends credit to its tenants, which consist of local, regional and national based tenants. The Investment Advisor does not believe this represents a material risk of loss with respect to its financial position.

Through our subsidiaries, we have oversight of certain servicing accounts held with third-party servicers, or servicing accounts, which relate to borrower escrows and other cash balances aggregating \$XXX and \$XXX as of December 31, 20CY and 20PY, respectively. This cash is maintained in segregated bank accounts, and these amounts are not included in the assets and liabilities presented in our consolidated statements of net assets. Cash in these servicing accounts will be transferred by the respective third-party servicer to the borrower or us under the terms of the applicable loan agreement upon occurrence of certain future events. We do not generate any revenue or incur any expenses as a result of these servicing accounts.

Interest receivable – Interest receivable is recognized on an accrual basis based on contractual amounts provided for in the loan agreements or other legal documents.

Line of credit and fund level notes payable – The line of credit and fund level notes payable are shown at fair value in accordance with ASC 820. See Note 3 for further details.

Repurchase facility — The repurchase facility is shown at fair value in accordance with ASC 820. See Note 3 for further details. Interest expense related to the facility is accrued periodically based on the contractual interest rate and facility terms and is included in net investment income within the consolidated statements of operations.

Financing Costs — Financing costs associated with the line of credit, fund level notes payable, and repurchase facility are expensed as incurred. For the years ended December 31, 20CY and 20PY, the Fund incurred financing costs of \$xx,xxx and \$xx,xxx, respectively.

Revenue recognition — Interest income on mortgages and other loans receivable is recognized on an accrual basis when the current interest is earned and receivable in accordance with the loan agreements.

[Section to consider if there are non-performing loans] The Fund considers a loan receivable to be non-performing and places loans on non-accrual status at such time as: (1) the fair value of the collateral as determined under the liquidation model is not sufficient to cover the loan's principal and accrued interest; (2) the loan has a maturity default; and/or (3) management determines it is probable that the amounts due according to the contractual terms of the loan will not be collected. While on non-accrual status, the Fund will continue to assess the collectability based on its judgment and measurement methods that are practical and relevant to the specific loan situation. Interest income will cease to be accrued during this time and debt service payments received from the borrower will be applied first to reduce outstanding principal until principal amounts are fully repaid. Any remaining cash receipts will then be recognized as interest income applying the effective interest method to determine the amount of interest income to be recognized for the period.

Fee income consists of origination fees, commitment fees, non-refundable underwriting fees, due diligence fees, prepayment fees and extension fees collected from borrowers and third-party owner/operators and is recognized when the fees are collected, in accordance with the associated loan agreements.

Income from investment in real estate preferred equity is recorded in accordance with the terms of the underlying agreement. Any preferred equity payment amounts that are deferred until the redemption date are recorded as unrealized gain on preferred equity in real estate within the consolidated statements of operations.

Rental revenue from real estate and improvements is recognized on an accrual basis in accordance with the terms of the underlying lease agreements. Other lease rental income, such as adjustments based on the Consumer Price Index, charges to tenants for their share of operating expenses, and percentage rents based on sales, are recognized when earned. Interest income is accrued as earned in accordance with the contractual terms of the loan agreements. Operating expenses are recognized as incurred.

Investment management fees — Investment management fees include asset management fees and investment acquisition fees charged by ABC. Such amounts are reflected in the accompanying consolidated financial statements when incurred.

Income taxes — The Fund is a partnership for U.S. income tax purposes. Under present US law, individual partners are liable for income taxes on their share of the Fund's income. The Fund itself is not liable for any U.S. federal, state, or local income taxes.

FASB ASC 740, *Income Taxes* (ASC 740), provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC 740 requires

the evaluation of tax positions taken in the course of preparing the Fund's tax returns to determine whether tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. For the years ended December 31, 20CY and 20PY, there have been no uncertain tax positions.

Concentration of market and credit risk

Concentrations of market and credit risk may exist with respect to the Fund's investments and its other assets and liabilities. Market risk is a potential loss the Fund may incur as a result of changes in the recoverable value of its investments. The Fund may also be subject to risk associated with concentrations of investments in geographic regions and industries. As of December 31, 20CY, the Fund's investments were not concentrated in a particular geographic region or industry.

Credit risk includes the possibility that a loss may occur from the failure of counterparties, such as the Fund's borrowers, to make payments according to the terms of the loan agreements. The Fund's exposure to credit risk at any point in time is generally limited to amounts recorded as assets on the consolidated statements of net assets.

Recently issued accounting standards

Accounting Standard Updates (ASU) recently issued that may be applicable to users of this manual include the following¹⁷:

- None noted for the year ending December 31, 2024. Open to update in future periods.

Impact of accounting standards not yet adopted — [to be tailored to each year at management's discretion.]

3. FAIR VALUE MEASUREMENTS¹⁸

The Fund accounts for its investments in accordance with the provisions of ASC 820. ASC 820 establishes fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

¹⁷ Additional ASUs may be applicable, as determined by management.

¹⁸ This footnote highlights disclosures that are optional after the adoption of ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement*.

Level 1— Valuations based on quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

Level 2 — Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 — Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and use significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation techniques used for items measured at fair value:

Mortgage and other loans receivable — The fair value of mortgage and other loans receivable held by the Fund have been determined by one or more of the following criteria as appropriate: (i) on the basis of estimated market interest rates for loans of comparable quality and maturity, (ii) by recognizing the value of equity participations and options to enter into equity participations contained in certain loan instruments and (iii) giving consideration to the value of the underlying collateral. The Fund's mortgage and other loans receivable are classified within level 3 of the valuation hierarchy. The fair values of mortgage and other loans receivable are determined by discounting future contractual cash flows to the present value using a current market interest rate, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period.

Investment in real estate preferred equity – The fair values of preferred equity in real estate investments are stated at the fair value of the Fund's preferred equity interests in the underlying entities in accordance with the terms of the agreement, which may be impacted by the value of underlying real estate, any related mortgage loans, and other factors such as ownership rights and distribution provisions. The underlying assets and liabilities are generally valued consistently with the techniques as described above for mortgage and other loans receivable and below for real estate and improvements. The Fund's preferred equity in real estate investments are generally classified within Level 3 of the valuation hierarchy.

Debt securities —

[Option 1] Equity securities listed or traded on any national market or exchange are valued at the last sale prices as of the close of the principal securities exchange on which such securities are traded or, if there is no sale, at the mean of the last bid and asked prices on such exchange, exclusive of transaction costs. Such marketable securities are classified within level 1 of the valuation hierarchy.

[Option 2] Debt securities are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type). Debt securities are generally classified within level 2 of the valuation hierarchy.

[Option 3] The fair value of the debt securities is determined using a discounted cash flow model. This model estimates the present value of expected future cash flows, which are discounted using a rate that reflects the credit risk of the issuer and current market conditions.

Real estate owned – The fair values of real estate and improvements have been prepared giving consideration to the income (direct capitalization and discounted cash flows), cost, and sales comparison approaches of estimating property value. The direct capitalization approach estimates a stabilized net operating income and capitalizes it at a yield rate. The discounted cash flow income approach estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk-adjusted rate. Yield rates, growth assumptions, and leasing terms utilized in both income approaches are derived from market transactions, where available, as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a validation on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Generally, the income approaches carry the most weight in the value reconciliation. The Fund's real estate and improvements are generally classified within Level 3 of the valuation hierarchy.

Line of credit – The fair value of the line of credit is determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, and (ii) the value of the underlying collateral. The Fund's line of credit facility is generally classified within level 3 of the valuation hierarchy. The Fund makes frequent draws and paydowns on the credit facility at market rates, and as such, the credit facility is recorded based on contractual outstanding principal balances, which is the best estimate of fair value as of December 31, 20CY and 20PY.

Notes payable and repurchase facilities – The fair values of notes payable and repurchase facilities are determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, and (ii) the value of the underlying collateral. The Fund's notes payable and repurchase facilities are generally classified within level 3 of the valuation hierarchy. The significant unobservable inputs used in the fair value measurement of the Fund's notes payable are the loan to value ratios and the selection of certain credit spreads and weighted average cost of capital risk premiums.

Other assets and liabilities – Interest receivable, other assets, investment management fees payable, and other liabilities are recorded at cost, which approximates fair value, as these are the amounts at which they are anticipated to be realized or liquidated.

The following are the classes of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 20CY and 20PY, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Footnote 3 - Fair Value Measurements

Description	Level 1: Quoted Prices in Active Markets for Identical Assets and Liabilities		Level 2: Significant Other Observable Inputs		Level 3: Significant Unobservable Inputs		Total at December 31, 20CY
	\$	-	\$	-	\$	-	
ASSETS							
Mortgage and other loans receivable	\$	-	\$	-	\$	115,750	\$ 115,750
Investment in real estate preferred equity						78,910	78,910
Debt securities						25,000	25,000
Real estate owned						22,000	22,000
Total real estate investments	\$	-	\$	-	\$	241,660	\$ 241,660
LIABILITIES							
Line of credit	\$	-	\$	-	\$	43,000	\$ 43,000
Notes payable	\$	-	\$	-	\$	77,115	\$ 77,115
Repurchase facilities	\$	-	\$	-	\$	32,500	\$ 32,500

Description	Level 1: Quoted Prices in Active Markets for Identical Assets and Liabilities		Level 2: Significant Other Observable Inputs		Level 3: Significant Unobservable Inputs		Total at December 31, 20PY
	\$	-	\$	-	\$	-	
ASSETS							
Mortgage and other loans receivable	\$	-	\$	-	\$	136,818	\$ 136,818
Investment in real estate preferred equity						42,771	42,771
Total real estate investments	\$	-	\$	-	\$	179,589	\$ 179,589
LIABILITIES							
Line of credit	\$	-	\$	-	\$	51,000	\$ 51,000
Notes payable	\$	-	\$	-	\$	61,690	\$ 61,690

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 20CY and 20PY:

Description	Mortgage and other loans receivable	Investment in real estate preferred equity	Debt securities (cost of \$20,000 and \$0, respectively)	Real estate owned		Notes payable	Repurchase facilities
				Line of credit			
Beginning balance December 31, 20PY	\$ 136,818	\$ 42,771	\$ -	\$ -	\$ 51,000	\$ 61,690	\$ -
Investments	3,063	41,339	20,000	-	-	-	-
Principal collections	(560)	-	-	-	-	-	-
Debt and repurchase facility proceeds	-	-	-	-	12,500	15,000	37,500
Repayments on debt and repurchase facilities	-	-	-	-	(20,500)	-	(5,000)
Assumption of real estate investments through deed in lieu of foreclosure	(25,571)	-	-	25,571	-	-	-
Real estate capital expenditures	2,000	(5,200)	5,000	(3,571)	-	425	-
Realized and unrealized gain / loss ¹	-	-	-	-	-	-	-
Ending balance December 31, 20CY	\$ 115,750	\$ 78,910	\$ 25,000	\$ 22,000	\$ 43,000	\$ 77,115	\$ 32,500
Beginning balance December 31, 20PY-1	\$ 83,429	\$ 24,786	\$ -	\$ -	\$ 37,208	\$ 38,240	\$ -
Investments	51,000	16,600	-	-	-	-	-
Debt proceeds	-	-	-	-	21,792	35,000	-
Principal payments on debt	-	-	-	-	(8,000)	(10,000)	-
Realized and unrealized gain / loss ¹	2,389	1,385	-	-	-	(1,550)	-
Ending balance December 31, 20PY	\$ 136,818	\$ 42,771	\$ -	\$ -	\$ 51,000	\$ 61,690	\$ -

¹ Optional after the adoption of ASU 2018-13

The following table shows quantitative information about significant unobservable inputs related to the level 3 fair value measurements used at December 31, 20CY and 20PY:

	December 31, 20CY Fair Value	December 31, 20PY Fair Value	Valuation Technique(s)	Unobservable Inputs	December 31, 20CY Ranges (Weighted Average)	December 31, 20PY Ranges (Weighted Average)
Mortgage and other loans receivable						
Apartment	\$ 43,585	\$ 67,668	Net present value	Credit spreads Loan to value ratio Weighted average cost of capital risk premiums	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)
Industrial	\$ 72,165	\$ 69,150	Net present value	Credit spreads Loan to value ratio Weighted average cost of capital risk premiums	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)
Investment in real estate preferred equity						
Apartment	\$ 37,665	\$ 27,760	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%)
Industrial	\$ 41,245	\$ 15,011	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%)
Debt securities						
Investment 1	\$ 25,000	\$ -	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	N/A N/A
Real estate owned						
Apartment	\$ 22,000	\$ -	Discounted cash flows (DCF)	Discount rate Terminal capitalization rate DCF term	xx% to xx% (xx%) xx% to xx% (xx%) X-X years (X years)	N/A N/A N/A
Line of credit						
Other	\$ 43,000	\$ 51,000	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	N/A - fund level debt instrument xx% to xx% (xx%)	xx% to xx% (xx%)
Notes payable						
Other	\$ 77,115	\$ 61,690	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	N/A - fund level debt instrument xx% to xx% (xx%)	xx% to xx% (xx%)
Repurchase facilities						
Other	\$ 32,500	\$ -	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	xx% to xx% (xx%) xx% to xx% (xx%)	N/A N/A

4. REAL ESTATE INVESTMENTS

The Fund's real estate investments consist of real estate loans, which are classified as mortgage and other loans receivable, preferred equity investments, debt securities and real estate and improvements.

The Fund's real estate loans are all secured by a mortgage interest in the underlying property serving as collateral. These loans do not have any participating rights in the operations of the underlying properties.

The Fund's preferred equity investments represent investments in underlying joint ventures with a separate third party. Through these joint venture arrangements, the Fund earns a preferred return based on the capital it has committed, but does not have any incremental participating rights.

The Fund's real estate and improvements represents an investment in an apartment complex location in CITY, STATE. On July XX, 20CY, the Fund's real estate loan for this investment was converted into a wholly-owned real estate asset as part of a deed in lieu of foreclosure agreement between the Fund and the borrower. As of December 31, 20CY, the property was recorded within real estate and improvements in the accompanying consolidated statement of net assets.

A summary of these investments as of December 31, 20CY and 20PY is presented in the table below.

Investment	City, State	Loan Type	Investment Date	Maturity Date	Interest Rate (fixed/variable)	Interest Rate Floor	Total Commitment	December 31, 20CY			December 31, 20PY		
								Unfunded Commitments	Investment at Cost	Investment at Fair Value	Unfunded Commitments	Investment at Cost	Investment at Fair Value
Mortgage and other loans receivable													
Apartment													
Loan 1	City, State	Senior loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 25,000	\$	\$ 43,585	\$ 43,585	\$	\$ 23,509	\$ 25,571
Loan 2	City, State	Mezz loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 44,000	\$	\$ 43,585	\$ 43,585	\$	\$ 42,097	\$ 42,097
Total apartment							\$ 69,000	\$	\$ 43,585	\$ 43,585	\$	\$ 65,606	\$ 67,668
Industrial													
Loan 3	City, State	Bridge loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 90,650	\$ 20,000	\$ 70,165	\$ 72,165	\$ 21,500	\$ 69,150	\$ 69,150
Total industrial							\$ 90,650	\$ 20,000	\$ 70,165	\$ 72,165	\$ 21,500	\$ 69,150	\$ 69,150
Total mortgage and other loans receivable										\$ 113,750	\$ 115,750	\$ 134,756	\$ 136,818
Preferred equity in real estate													
Apartment													
Pref 1	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 13,600	\$	\$ 7,865	\$ 8,820	\$	\$ 2,701	\$ 2,978
Pref 2	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 36,283	\$ 15,000	\$ 27,641	\$ 28,845	\$ 15,000	\$ 24,641	\$ 24,782
Total apartment							\$ 49,883	\$ 15,000	\$ 35,506	\$ 37,685	\$ 15,000	\$ 27,342	\$ 27,760
Industrial													
Pref 3	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$	\$	\$ 18,519	\$ 20,749	\$	\$ 14,519	\$ 15,011
Pref 4	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$	\$	\$ 19,074	\$ 20,496	\$	\$ 14,519	\$ 15,011
Total industrial							\$	\$	\$ 37,593	\$ 41,245	\$	\$ 14,519	\$ 15,011
Total preferred equity in real estate										\$ 73,099	\$ 78,910	\$ 41,861	\$ 42,771
Debt securities													
Investment 1	Various	CMBS	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 55,000	\$	\$ 20,000	\$ 25,000	\$	\$	\$
Real estate owned													
Apartment	City, State	N/A	1/1/XXXX							\$ 23,509	\$ 22,000		

5. LINE OF CREDIT, NOTES PAYABLE, AND REPURCHASE FACILITIES

Line of credit, notes payable and repurchase facilities consist of the following as of December 31, 20CY and XXPY:

Footnote 5 - Line of Credit, Notes Payable and Repurchase Facility

	Maximum Facility Size	20CY Cost	20CY Fair Value	20PY Cost	20PY Fair Value	Interest Rate ¹	Weighted Average Interest Rate	Maturity Date	Terms ²
Line of credit	\$ 100,000	\$ 43,000	\$ 43,000	\$ 51,000	\$ 51,000	Weekly Variable ³	5.25%	XXXX	I
Total line of credit	\$ 100,000	\$ 43,000	\$ 43,000	\$ 51,000	\$ 51,000				
Notes payable									
Note payable #1	\$ 30,000	\$ 29,153	\$ 30,000	\$ 28,967	SOFR (30-day) + x.xx%	7.80%	XXXX	I, PP	
Note payable #2	35,000	32,986	35,000	32,723	SOFR (30-day) + x.xx%	6.10%	XXXX	I	
Note payable #3	15,000	14,976	0	0	SOFR (30-day) + x.xx%	6.50%	XXXX	I	
Total notes payable	\$ 80,000	\$ 77,115	\$ 65,000	\$ 61,690					
Repurchase facilities									
Repurchase facility #1	\$ 50,000	\$ 32,500	\$ 32,500	\$ -	\$ -	x.xx%	6.82%	XXXX	I
Total repurchase facility	\$ 50,000	\$ 32,500	\$ 32,500	\$ -	\$ -				
Total	\$ 150,000	\$ 155,500	\$ 152,615	\$ 116,000	\$ 112,690				

¹ As of December 31, 20CY, SOFR was x.xxxx%.

² Loan Terms PP=Prepayment penalties applicable to loan, I=Interest only, P&I=Principal and Interest

³ The Weekly Variable Rate shall be the minimum rate of interest necessary, in the professional judgment of the Remarketing Agent, taking into consideration prevailing market conditions, to enable the Remarketing Agent to remarket all of the Bonds on the applicable Rate Determination Date at par plus accrued interest on the bonds for that week.

The Fund has a Repurchase Agreement ("RA") with a lender that has a capacity of \$XXX and an option to upsize to \$XXX. Under the RA, the Fund's wholly-owned subsidiary will sell eligible loans to the lender with a simultaneous agreement by the lender to sell the loans back upon request of the Fund (subject to contractually defined parameters) on the related repurchase date. The Fund can revolve eligible loans on and off the facility as per the RA. In accordance with ASC 860-30, *Secured Borrowing and Collateral*, the Fund has accounted for the sale of the loans under the RA as secured borrowings as the Fund's subsidiaries maintain effective control over the transferred loans and investments.

The interest rate under the RA is dependent on the type of investment, generally within a predetermined range and is determined on a loan by loan basis. The Fund has pledged mortgage and other loans receivable

investments with an estimated fair value of \$XXX as of December 31, 20CY as collateral to the RA. The Fund may be required to post margin under the RA if there is a material adverse change in the credit characteristics of a particular loan with respect to the underlying property, borrower, or particular real estate market. The Fund was not required to post any margin under the RA as of December 31, 20CY.

The following table shows the aggregate amount of maturities of the Fund's debt obligations over the next five years and thereafter as of December, 20CY:

Year Ended December 31

20CY+1	\$	-
20CY+2		43,000
20CY+3		30,000
20CY+4		35,000
20CY+5		-
Thereafter		<u>47,500</u>
 Total	 \$	 <u>155,500</u>

The Fund's loan agreements contain financial and non-financial covenants, including requirements regarding net assets, leverage ratio, and debt service coverage ratio. The Fund believes it was in compliance with all covenants as of and for the year ended December 31, 20CY.

The Fund has evaluated its debt instruments to identify those maturing over the next 12 months. The Fund has \$XX of debt maturing within the next 12 months, which it intends to settle through refinance or repayment with cash from financings, or net cash flows from operations.

6. PARTNERS' CAPITAL

The notes to the consolidated financial statements provide only general information pertaining to the Agreement. [Members] [Limited Partners] should refer to the applicable Agreement for a more complete description of the Agreement provisions.

Committed Capital

[Closed end fund example] As of XXX the Partnership has total commitments of \$XXXX. The General Partner may call capital up to the amount of unfunded commitments to enable the Fund to make or acquire investments, pay fund expenses or meet other reserve needs for the Fund. The total unfunded commitment as of XXXX is \$XXXX. The ratio of total contributed capital to total committed capital is XX% as of XXXX.

Capital Contributions

[insert language from Agreement]

Capital Withdrawals and Distributions

[insert language from Agreement]

Allocation of Profits and Losses

[insert language from Agreement]

[Carried Interest] [Profit Split] [Promote]

[insert language from Agreement]

Clawback

[insert language from Agreement]

7. RELATED PARTY FEES AND AFFILIATE TRANSACTIONS

Note: The below examples are illustrative only and may not represent a comprehensive list of related party/affiliate transactions for a specific Fund. The intent is to provide full transparency of related party and affiliate transactions of each Fund. Some Investment Managers or General Partners may decide to disclose additional detailed information about related party or affiliate transactions in a separate report to investors.

Third-party payments facilitated by the Investment Advisor/General Partner that are subsequently reimbursed by the Fund do not meet the definition of related party transactions under ASC 850.

The examples include various fees and expenses that may be paid to the Investment Advisor/General Partner and do not necessarily correspond to the types of fees used to calculate the net of fee returns or for performance assessments.

This disclosure is not a tool to be used for comparison across Funds.

The Fund incurred investment management fees and origination fees of \$x,xxx and \$x,xxx, respectively, for the year ended December 31, 20CY and \$x,xxx and \$x,xxx, respectively, for the year ended December 31, 20PY as illustrated below.

Investment Management Fees - The Fund has engaged the [Investment Advisor] [General Partner] to provide investment management and other services. Below is a detailed summary of the fees incurred for these services for the years ended December 31, 20CY and 20PY as well as where they are recorded in the consolidated financial statements:

Footnote 6 - Related Party Fees

Investment Management Fees:	Financial Statement Caption	Year Ended 20CY	Year Ended 20PY	Fee Description
Loan Origination	Financing costs	xxx,xxx	xxx,xxx	XX bp of Projected principal balance
Investment Management	Investment management fees	xxx,xxx	xxx,xxx	X% of Net operating income
Total Investment Management Fees		\$xxx,xxx	\$xxx,xxx	

[Add additional fee description details as appropriate]

Investment management fees and origination fees totaling \$xx,xxx and \$xx,xxx were payable at December 31, 20CY and 20PY, respectively, and are included in investment management fees payable within the consolidated statements of net assets.

Other Related Party Transactions with the [Investment Advisor] [General Partner]

[Add more details of any additional related party relationships between the Fund and Investment Advisor/General Partner or for related party transactions where the manager allocates expenses across multiple Funds as appropriate]

8. FINANCIAL HIGHLIGHTS — Open End Fund Example for a Non-Unitized Fund (Required only for entities reporting as investment companies within the scope of ASC 946)

The Fund computes net assets on a quarterly [monthly] basis. An individual limited partner's total return and average net assets may differ due to the timing of contributions and redemptions. The financial highlights for the years ended December 31, 20CY and 20PY are as follows:

Footnote 8 - Financial Highlights

	December 31, 20CY	December 31, 20PY
Net assets, beginning of period	\$ 134,032	\$ 95,799
Income in net assets resulting from operations:		
Net investment income, before asset management fees	30,313	31,809
Net unrealized gain	9,461	5,324
Total income from investment operations, before management fees	39,774	37,133
Investment management fees	5,400	5,320
Total income from investment operations	34,374	31,813
Net increase resulting from capital transactions	12,063	6,420
Net assets, end of period	\$ 180,469	\$ 134,032
Total return, before management fees¹:	26.3%	24.5%
Total return, after management fees¹:	22.7%	21.0%
Ratios to average net assets²:		
Total expenses	21.3%	14.6%
Net investment income	16.5%	17.5%

¹Total Return, before / after investment management fees is calculated by geometrically linking quarterly returns which are calculated using the formula below:

$$\text{Net Investment Income before / after Asset Management Fees + Net Unrealized Gains (Losses)} / \text{Beg. Net Asset Value + Time Weighted Contributions - Time Weighted Distributions}$$

² Average net assets are based on beginning of quarter net assets.

9. COMMITMENTS AND CONTINGENCIES

The Fund is from time to time involved in legal actions arising in the ordinary course of business. The outcome of such matters is not expected to have a material adverse effect on the Fund's consolidated financial statements.

The Fund has investments for which it is contractually obligated to fund additional capital after initial funding. Such additional funding is generally provided in the ordinary course of business and includes unfunded commitments under investments in mortgage and other loans receivable. The unfunded commitments consist of funding for leasing costs, interest reserves and capital expenditure. Funding depends on the timing

of lease-up, renovation and capital improvements as well as satisfaction of certain cash flow tests. Therefore, the exact timing and amounts of such future loan fundings are uncertain. As of December 31, 20CY, the Fund was committed to future funding obligations of \$XXXX on previously closed investments

10. SUBSEQUENT EVENTS

The Fund has evaluated events subsequent through XXXX X, XXCY+1, the date the financial statements were available for issuance.

* * * * *

Appendix C-2: Illustrative Financial Statements – Non-Operating Model (Net) Presentation

The accompanying financial statements are illustrative only and provide a general format for annual financial statements prepared on a fair value basis of accounting. Disclosures included in the illustrative financial statements are not intended to be comprehensive and are not intended to establish preferences among alternative disclosures.

Note: There is diversity in practice amongst private real estate funds from a report presentation standpoint. For purposes of the attached example financial statements, the following bullet points highlight the presentation utilized herein:

- The accompanying financial statements represent an open-end debt fund presenting as an investment company (ASC 946) based on the non-operating (net) model
- The accompanying financial statements are presented on a comparative basis; however, single year presentation is also an acceptable form of presentation in accordance with GAAP

Refer to Appendix C-1 for an example of operating model (gross) presentation. Also note that certain funds may issue single-year financial statements only.

XYZ Debt Fund

Non-Operating (Net) Model

Consolidated Financial Statements for the Years Ended December 31, 20CY and 20PY

XYZ DEBT FUND

CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Assets:		
Real estate investments - at fair value:		
Mortgage and other loans receivable (cost of \$113,750 and \$134,756, respectively)	\$ 115,750	\$ 136,818
Investment in real estate preferred equity (cost of \$73,099 and \$41,861, respectively)	78,910	42,771
Debt securities (cost of \$20,000 and \$0, respectively)	25,000	-
Real estate owned (cost of \$23,509 and \$0, respectively)	23,225	-
 Total real estate investments	 \$ 242,885	 179,589
Cash and cash equivalents	87,780	62,692
Interest and other receivables	3,178	2,131
Other assets	2,591	5,695
 Total assets	 \$ 336,434	 \$ 250,107
 Liabilities:		
Line of credit - at fair value (cost of \$43,000 and \$51,000, respectively)	43,000	51,000
Fund level notes payable - at fair value (cost of \$80,000 and \$65,000, respectively)	77,115	61,690
Repurchase facilities - at fair value (cost of \$32,500 and \$0, respectively)	32,500	-
Investment management fees payable	1,350	1,330
Other liabilities	2,000	2,055
 Total liabilities	 \$ 155,965	 \$ 116,075
 Net assets:	 \$ 180,469	 \$ 134,032

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund non-operating model financial statements

XYZ Debt Fund
Consolidated Schedules of Investments
As of December 31, 20CY AND 20PY (in thousands)

						December 31, 20CY		December 31, 20PY	
Investment	City, State	Loan Type	Maturity Date	Interest Rate (fixed/variable)	Investment at Cost	Investment at Fair Value	Investment at Cost	Investment at Fair Value	
Mortgage and other loans receivable									
Apartment									
Loan 1	City, State	Senior	1/1/XXXX	xx.x%/xx.x%	\$ 43,585	\$ 43,585	\$ 23,509	\$ 25,571	
Loan 2	City, State	Mezz	1/1/XXXX	xx.x%/xx.x%			\$ 42,097	\$ 42,097	
Total apartment					\$ 43,585	\$ 43,585	\$ 65,606	\$ 67,668	
Industrial									
Loan 3	City, State	Senior	1/1/XXXX	xx.x%/xx.x%	\$ 70,165	\$ 72,165	\$ 69,150	\$ 69,150	
Total industrial					\$ 70,165	\$ 72,165	\$ 69,150	\$ 69,150	
Total mortgage and other loans receivable (x% of NAV)					\$ 113,750	\$ 115,750	\$ 134,756	\$ 136,818	
Preferred equity in real estate									
Apartment									
Pref 1	City, State	Pref	1/1/XXXX	xx.x%	\$ 7,865	\$ 8,820	\$ 2,701	\$ 2,978	
Pref 2	City, State	Pref	1/1/XXXX	xx.x%	27,641	28,845	24,641	24,782	
Total apartment					\$ 35,506	\$ 37,665	\$ 27,342	\$ 27,760	
Industrial									
Pref 3	City, State	Pref	1/1/XXXX	xx.x%	\$ 18,519	\$ 20,749	\$ 14,519	\$ 15,011	
Pref 4	City, State	Pref	1/1/XXXX	xx.x%	19,074	20,496			
Total industrial					\$ 37,593	\$ 41,245	\$ 14,519	\$ 15,011	
Total preferred equity in real estate (x% of NAV)					\$ 73,099	\$ 78,910	\$ 41,861	\$ 42,771	
Debt securities									
Investment 1	Various	CMBS	1/1/XXXX	xx.x%	\$ 20,000	\$ 25,000	\$	\$	
Total debt securities (x% of NAV)					\$ 20,000	\$ 25,000	\$	\$	
					December 31, 20CY		December 31, 20PY		
Investment	City, State	Ownership	Acquisition Date	Square Feet (Unaudited)	Cost	Fair Value	Cost	Fair Value	
Real estate owned									
Apartment									
Total apartment	City, State	WO	1/1/XXXX	xxx	\$ 23,509	\$ 23,225	\$ -	\$ -	
Total real estate owned (x% of NAV)					\$ 23,509	\$ 23,225	\$ -	\$ -	
Total Real Estate Investments					\$ 230,358	\$ 242,885	\$ 176,617	\$ 179,589	

WO - Wholly Owned Investment

Mezz - Mezzanine loan

Pref - Preferred equity

CMBS - Commercial mortgage-backed security

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund non-operating model financial statements

Note: GAAP requirement is to only disclose assets that are greater than 5% of NAV but funds may elect to disclose all assets

XYZ DEBT FUND

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Investment income:		
Interest income on mortgage and other loans receivable	\$ 38,140	\$ 25,572
Fee income	1,316	9,643
Equity income from investment in real estate preferred equity	15,164	13,424
Income distributions from real estate owned	825	-
Other income	11	13
Total investment income	55,906	48,652
Expenses:		
[Fund level] interest expense	22,467	12,127
[Fund level] general and administrative expense	1,909	2,454
Investment management fees	5,400	5,320
[Fund level] financing costs	992	2,262
Total expenses	30,768	22,163
Net investment income	24,688	26,489
Net realized gain (loss):		
Net realized gain, net	1,289	-
Net unrealized gain (loss):		
Unrealized gain on mortgage and other loans receivable	2,000	2,389
Unrealized gain on preferred equity in real estate	5,168	1,385
Unrealized gain on debt securities	5,000	-
Unrealized loss on real estate owned	(3,346)	-
Unrealized gain on repurchase facilities	-	-
Unrealized gain (loss) on notes payable	(425)	1,550
Net realized and unrealized gain	9,686	5,324
Increase in net assets resulting from operations	\$ 34,374	\$ 31,813

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund non-operating model financial statements

XYZ DEBT FUND**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)**

XYZ DEBT FUND		
Net assets - December 31, 20PY-1	\$	95,799
From operations:		
Net investment income		26,489
Net realized and unrealized gain		5,324
Increase in net assets resulting from operations		31,813
From capital transactions:		
Contributions		11,250
Distributions		(4,830)
Increase in net assets resulting from capital transactions		6,420
Increase in net assets		<u>38,233</u>
Net assets - December 31, 20PY	\$	134,032
From operations:		
Net investment income		24,688
Net realized and unrealized gain		9,686
Increase in net assets resulting from operations		34,374
From capital transactions:		
Contributions		14,388
Distributions		(2,325)
Increase in net assets resulting from capital transactions		12,063
Increase in net assets		<u>46,437</u>
Net assets - December 31, 20CY	\$	180,469

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund non-operating model financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 20CY AND 20PY (in thousands)

	20CY	20PY
Cash flows from operating activities:		
Increase in net assets resulting from operations	\$ 34,374	\$ 31,813
Adjustments to reconcile increase in net assets resulting from operations to net cash flows from operating activities:		
Investments - at fair value:		
Net realized and unrealized gain	(9,686)	(5,324)
Investments in mortgage and other loans receivable	(3,063)	(51,000)
Principal collections on mortgage and other loans receivable	560	-
Investments in preferred equity in real estate	(41,339)	(16,600)
Net proceeds from investment pay-off / sale	11,657	-
Investment in debt securities	(20,000)	-
Financing costs	992	2,262
Changes in other assets and liabilities:		
Interest and other receivable	(1,047)	(1,056)
Other assets	2,104	2,750
Investment management fees payable	20	(155)
Other liabilities	(55)	(110)
Net cash flow used in operating activities	(25,483)	(37,420)
Cash flows from financing activities:		
Proceeds from line of credit	12,500	21,792
Proceeds from notes payable	15,000	35,000
Principal payments on line of credit	(20,500)	(8,000)
Principal payments on notes payable	-	(10,000)
Proceeds from repurchase facilities	37,500	-
Repayments to repurchase facilities	(5,000)	-
Payment of financing costs	(992)	(2,262)
Contributions	14,388	11,250
Distributions	(2,325)	(4,830)
Net cash flow provided by financing activities	50,571	42,950
Net change in cash and cash equivalents	25,088	5,530
Cash and cash equivalents — Beginning of year	62,692	57,162
Cash and cash equivalents — End of year	\$ 87,780	\$ 62,692

Supplemental cash flow information:

Cash paid for [fund level] interest during the year	\$ 21,805	\$ 11,214
Conversion of mortgage notes receivable to real estate owned through deed in lieu of foreclosure (See Note 4)	\$ 25,571	-
Conversion of property level working capital to real estate owned through deed in lieu of foreclosure (See Note 4)	\$ 1,000	

See accompanying notes to the consolidated financial statements.

For illustrative purposes only - Debt Fund non-operating model financial statements

XYZ REAL ESTATE ACCOUNT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 20CY AND 20PY (\$ in thousands)

1. ORGANIZATION

XYZ Real Estate Fund, LP (referred to with its subsidiaries collectively as the “Fund”) is a Delaware limited partnership formed on XXXXXX and which commenced operations on XXXXXX. The Fund is organized as a perpetual life, open-ended commercial mortgage debt fund, in accordance with the Partnership Agreement (the “Agreement”) between General Partner LLC (the “General Partner”), a Delaware limited liability company, and other investors (the “Limited Partners”).

The Fund is in the business of making investments in senior loans, mortgages, structured debt products, preferred equity, and mezzanine loans to commercial real estate assets located in the United States.

The managing member of the General Partner is a wholly-owned subsidiary of the Investment Advisor [Manager] (“ABC” or “Investment Advisor [Manager]”) and has ultimate responsibility for the management and operations of the Fund.

Total unfunded capital commitments from investors were \$XXX and \$XXX as of December 31, 20CY and 20PY, respectively.

The term of the Fund shall continue in existence until XXXXXX pursuant to the provisions of the Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 946, *Financial Services – Investment Companies* (“ASC 946”), the Fund qualifies as an investment company. The accompanying consolidated financial statements of the Fund have been presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of each of the Fund’s wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The Fund’s estimates of fair value are based on the best information available to management at the date of valuation. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Real estate and capital markets are cyclical in nature. Property and debt investment values are affected by, among other things, the availability of capital, occupancy rates, rental rates and interest and inflation rates. As a result, determining real estate and debt investment values involves many assumptions. Amounts ultimately realized from each investment may vary significantly from the fair values presented.

Debt investments – Investments in mortgage and other loans receivable, preferred equity in real estate, debt securities and real estate investments are carried at fair value in accordance with FASB ASC 820, *Fair Value Measurement* (“ASC 820”). See Note 3 for further detail.

Real estate owned — Investments in real estate owned are carried at fair value. Development costs and major renovations are capitalized as a component of cost, and routine maintenance and repairs are charged to expense as incurred.

The fair value of the real estate property received through foreclosure represents the initial component of the real estate investment costs.

[Refer to Section 3.06 of the Debt Fund Manual for further background on initial accounting treatment.]

Investment valuation — Debt and real estate investment values are based upon independent appraisals, estimated sales proceeds or the Investment Advisor’s opinion of value. Such values have been identified for investment and portfolio management purposes only; the Fund reserves its right to pursue full remedies for the recovery of its investments and other rights. The fair value of real estate investments does not reflect transaction sale costs, which may be incurred upon disposition of the real estate investments.

The estimated fair value of debt and real estate related assets is determined through an appraisal process. These estimated fair values may vary significantly from the prices at which the investments would sell as market prices of these investments can only be determined by negotiation between a willing buyer and seller. Although the estimated fair values represent subjective estimates, management believes these estimated fair values are reasonable approximations of market prices.

Cash and cash equivalents — Cash and cash equivalents are comprised of cash and short-term investments with original maturity dates of less than ninety days from the date of purchase.

Through our subsidiaries, we have oversight of certain servicing accounts held with third-party servicers, or servicing accounts, which relate to borrower escrows and other cash balances aggregating \$XXX and \$XXX as of December 31, 20CY and 20PY, respectively. This cash is maintained in segregated bank accounts, and these amounts are not included in the assets and liabilities presented in our consolidated statements of net assets. Cash in these servicing accounts will be transferred by the respective third-party servicer to the borrower or us under the terms of the applicable loan agreement upon occurrence of certain future events. We do not generate any revenue or incur any expenses as a result of these servicing accounts.

The Fund invests its cash primarily in deposits and money market funds with commercial banks. At times, cash balances at a limited number of banks and financial institutions may exceed federally insured amounts. The Fund believes it mitigates credit risk by depositing cash in or investing through major financial institutions. In addition, in the normal course of business, the Fund extends credit to its tenants, which consist of local, regional and national based tenants. The Investment Advisor does not believe this represents a material risk of loss with respect to its financial position.

Interest receivable – Interest receivable is recognized on an accrual basis based on contractual amounts provided for in the loan agreements or other legal documents.

Line of credit and notes payable – The line of credit and notes payable are shown at fair value in accordance with ASC 820. See Note 3 for further details.

Repurchase facility — The repurchase facility is shown at fair value in accordance with ASC 820. See Note 3 for further details. Interest expense related to the facility is accrued periodically based on the contractual interest rate and facility terms and is included in net investment income within the consolidated statements of operations.

Financing Costs — Financing costs associated with the line of credit, fund level notes payable, and repurchase facility are expensed as incurred. For the years ended December 31, 20CY and 20PY, the Fund incurred financing costs of \$xx,xxx and \$xx,xxx, respectively.

Revenue recognition — Interest income on mortgages and other loans receivable is recognized when the current interest is earned and receivable in accordance with the loan agreements.

[Section to consider if there are non-performing loans] The Fund considers a loan receivable to be non-performing and places loans on non-accrual status at such time as: (1) the fair value of the collateral as determined under the liquidation model is not sufficient to cover the loan's principal and accrued interest; (2) the loan has a maturity default; and/or (3) management determines it is probable that the amounts due according to the contractual terms of the loan will not be collected. While on non-accrual status, the Fund will continue to assess the collectability based on its judgment and measurement methods that are practical and relevant to the specific loan situation. Interest income will cease to be accrued during this time and debt service payments received from the borrower will be applied first to reduce outstanding principal until principal amounts are fully repaid. Any remaining cash receipts will then be recognized as interest income applying the effective interest method to determine the amount of interest income to be recognized for the period.

Fee income consists of origination fees, commitment fees, non-refundable underwriting fees, due diligence fees, prepayment fees and extension fees collected from borrowers and third-party owner/operators and is recognized when the fees are collected, in accordance with the associated loan agreements.

Income from investment in real estate preferred equity is recorded in accordance with the terms of the underlying agreement. Any preferred equity payment amounts that are deferred until the redemption date are recorded as unrealized gain on preferred equity in real estate within the consolidated statements of operations.

Income distributions from real estate owned — Distributions from real estate properties are recognized as income when received to the extent such amounts are paid from earnings and profits of the underlying investee.

Investment management fees — Investment management fees include asset management fees and investment acquisition fees charged by ABC. Such amounts are reflected in the accompanying consolidated financial statements when incurred.

Income taxes — The Fund is a partnership for U.S. income tax purposes. Under present US law, individual partners are liable for income taxes on their share of the Fund's income. The Fund itself is not liable for any U.S. federal, state, or local income taxes.

FASB ASC 740, *Income Taxes* (ASC 740), provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the consolidated financial statements. ASC 740 requires the evaluation of tax positions taken in the course of preparing the Fund's tax returns to determine whether tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of

positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. For the years ended December 31, 20CY and 20PY, there have been no uncertain tax positions.

Concentration of market and credit risk

Concentrations of market and credit risk may exist with respect to the Fund's investments and its other assets and liabilities. Market risk is a potential loss the Fund may incur as a result of changes in the recoverable value of its investments. The Fund may also be subject to risk associated with concentrations of investments in geographic regions and industries. As of December 31, 20CY, the Fund's investments were not concentrated in a particular geographic region or industry.

Credit risk includes the possibility that a loss may occur from the failure of counterparties, such as the Fund's borrowers, to make payments according to the terms of the loan agreements. The Fund's exposure to credit risk at any point in time is generally limited to amounts recorded as assets on the consolidated statements of net assets.

Recently issued accounting standards

Accounting Standard Updates (ASU) recently issued that may be applicable to users of this manual include the following¹⁹:

- None noted for the year ended December 31, 2024. Open to update in future periods.

Impact of accounting standards not yet adopted — [to be tailored to each year at management's discretion.]

3. FAIR VALUE MEASUREMENTS

The Fund accounts for its investments in accordance with the provisions of ASC 820. ASC 820 establishes fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Fund. Unobservable inputs are inputs that reflect the Fund's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is measured in three levels based on the reliability of inputs:

Level 1— Valuations based on quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

Level 2— Valuations based on quoted prices in less active, dealer or broker markets. Fair values are primarily obtained from third party pricing services for identical or comparable assets or liabilities.

¹⁹ Additional ASUs may be applicable, as determined by management.

Level 3 — Valuations derived from other valuation methodologies, including pricing models, discounted cash flow models and similar techniques, and not based on market, exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections that are not observable in the market and use significant professional judgment in determining the fair value assigned to such assets or liabilities.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation techniques used for items measured at fair value:

Mortgage and other loans receivable — The fair value of mortgage and other loans receivable held by the Fund have been determined by one or more of the following criteria as appropriate: (i) on the basis of estimated market interest rates for loans of comparable quality and maturity, (ii) by recognizing the value of equity participations and options to enter into equity participations contained in certain loan instruments and (iii) giving consideration to the value of the underlying collateral. The Fund's mortgage and other loans receivable are classified within level 3 of the valuation hierarchy. The fair values of mortgage and other loans receivable are determined by discounting future contractual cash flows to the present value using a current market interest rate, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period.

Investment in real estate preferred equity — The fair values of preferred equity in real estate investments are stated at the fair value of the Fund's preferred equity interests in the underlying entities in accordance with the terms of the agreement, which may be impacted by the value of underlying real estate, any related mortgage loans, and other factors such as ownership rights and distribution provisions. The underlying assets and liabilities are generally valued consistently with the techniques as described above for mortgage and other loans receivable and below for real estate and improvements. The Fund's preferred equity in real estate investments are generally classified within Level 3 of the valuation hierarchy.

Debt securities —

[Option 1] Equity securities listed or traded on any national market or exchange are valued at the last sale prices as of the close of the principal securities exchange on which such securities are traded or, if there is no sale, at the mean of the last bid and asked prices on such exchange, exclusive of transaction costs. Such marketable securities are classified within level 1 of the valuation hierarchy.

[Option 2] Debt securities are generally valued at the most recent bid price of the equivalent quoted yield for such securities (or those of comparable maturity, quality, and type). Debt securities are generally classified within level 2 of the valuation hierarchy.

[Option 3] The fair value of the debt securities is determined using a discounted cash flow model. This model estimates the present value of expected future cash flows, which are discounted using a rate that reflects the credit risk of the issuer and current market conditions.

Real estate and improvements — The fair values of real estate and improvements have been prepared giving consideration to the income (direct capitalization and discounted cash flows), cost, and sales comparison approaches of estimating property value. The direct capitalization approach estimates a stabilized net operating income and capitalizes it at a yield rate. The discounted cash flow income approach estimates an

income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk-adjusted rate. Yield rates, growth assumptions, and leasing terms utilized in both income approaches are derived from market transactions, where available, as well as other financial and industry data. The cost approach estimates the replacement cost of the building less physical depreciation plus the land value. Generally, this approach provides a validation on the value derived using the income approach. The sales comparison approach compares recent transactions to the appraised property. Adjustments are made for dissimilarities which typically provide a range of value. Generally, the income approaches carry the most weight in the value reconciliation. The Fund's real estate and improvements are generally classified within Level 3 of the valuation hierarchy.

Line of credit – The fair value of the line of credit is determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, and (ii) the value of the underlying collateral. The Fund's line of credit facility is generally classified within level 3 of the valuation hierarchy. The Fund makes frequent draws and paydowns on the credit facility at market rates, and as such, the credit facility is recorded based on contractual outstanding principal balances, which is the best estimate of fair value as of December 31, 20CY and 20PY.

Notes payable and repurchase facilities — The fair values of notes payable and repurchase facilities are determined by discounting the future contractual cash flows to the present value using a current market interest rate. The market rate is determined by giving consideration to one or more of the following criteria as appropriate: (i) interest rates for loans of comparable quality and maturity, and (ii) the value of the underlying collateral. The Fund's notes payable and repurchase facilities are generally classified within level 3 of the valuation hierarchy. The significant unobservable inputs used in the fair value measurement of the Fund's notes payable are the loan to value ratios and the selection of certain credit spreads and weighted average cost of capital risk premiums.

Other assets and liabilities – Interest receivable, other assets, investment management fees payable, and other liabilities are recorded at cost, which approximates fair value, as these are the amounts at which they are anticipated to be realized or liquidated.

The following are the classes of assets and liabilities measured at fair value on a recurring basis during the year ended December 31, 20CY and 20PY, using unadjusted quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

Description	Level 1: Quoted Prices in Active Markets for Identical sets and Liabilities	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at
				December 31, 20CY
ASSETS				
Mortgage and other loans receivable	\$ -	\$ -	\$ 115,750	\$ 115,750
Investment in real estate preferred equity	-	-	78,910	78,910
Debt securities	-	-	25,000	25,000
Real estate and improvements	-	-	23,225	23,225
Total real estate investments	\$ -	\$ -	\$ 242,885	\$ 242,885
LIABILITIES				
Line of credit	\$ -	\$ -	\$ 43,000	\$ 43,000
Notes payable	\$ -	\$ -	\$ 77,115	\$ 77,115
Repurchase facilities	\$ -	\$ -	\$ 32,500	\$ 32,500

Description	Level 1: Quoted Prices in Active Markets for Identical sets and Liabilities	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at
				December 31, 20PY
ASSETS				
Mortgage and other loans receivable	\$ -	\$ -	\$ 136,818	\$ 136,818
Investment in real estate preferred equity	-	-	42,771	42,771
Total real estate investments	\$ -	\$ -	\$ 179,589	\$ 179,589
LIABILITIES				
Line of credit	\$ -	\$ -	\$ 51,000	\$ 51,000
Notes payable	\$ -	\$ -	\$ 61,690	\$ 61,690

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 20CY and 20PY:

Description	Mortgage and other loans receivable	Investment in real estate preferred equity	Debt Securities	Real estate owned	Line of credit	Notes payable	Repurchase facilities
Beginning balance December 31, 20PY	\$ 136,818	\$ 42,771	\$ -	\$ -	\$ 51,000	\$ 61,690	\$ -
Investments	3,063	41,339	20,000	-	-	-	-
Principal collections	(560)	-	-	-	-	-	-
Debt and repurchase facility proceeds	-	-	-	-	12,500	15,000	37,500
Repayments on debt and repurchase facilities	-	-	-	-	(20,500)	-	(5,000)
Assumption of real estate investments through deed in lieu of foreclosure	(25,571)	-	-	26,571	-	-	-
Real estate capital expenditures	-	-	-	-	-	-	-
Realized and unrealized gain / loss ¹	2,000	(5,200)	5,000	(3,346)	-	425	-
Ending balance December 31, 20CY	\$ 115,750	\$ 78,910	\$ 25,000	\$ 23,225	\$ 43,000	\$ 77,115	\$ 32,500
 Beginning balance December 31, 20PY-1	 \$ 83,429	 \$ 24,786	 \$ -	 \$ -	 \$ 37,208	 \$ 38,240	 \$ -
Investments	51,000	16,600	-	-	-	-	-
Debt proceeds	-	-	-	-	21,792	35,000	-
Principal payments on debt	-	-	-	-	(8,000)	(10,000)	-
Realized and unrealized gain / loss ¹	2,389	1,385	-	-	-	(1,550)	-
Ending balance December 31, 20PY	\$ 136,818	\$ 42,771	\$ -	\$ -	\$ 51,000	\$ 61,690	\$ -

Optional after the adoption of ASU 2018-13

The following table shows quantitative information about significant unobservable inputs related to the level 3 fair value measurements used at December 31, 20CY and 20PY:

Footnote 3 - Fair Value Measurements

	December 31, 20CY Fair Value	December 31, 20PY Fair Value	Valuation Technique(s)	Unobservable Inputs	December 31, 20CY Ranges (Weighted Average)	December 31, 20PY Ranges (Weighted Average)
Mortgage and other loans receivable						
Apartment	\$ 43,585	\$ 67,668	Net present value	Credit spreads Loan to value ratio Weighted average cost of capital risk premiums	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)
Industrial	\$ 72,165	\$ 69,150	Net present value	Credit spreads Loan to value ratio Weighted average cost of capital risk premiums	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%) xx% to xx% (xx%)
Investment in real estate preferred equity						
Apartment	\$ 37,665	\$ 27,760	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%)
Industrial	\$ 41,245	\$ 15,011	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	xx% to xx% (xx%) xx% to xx% (xx%)
Debt securities						
Investment 1	\$ 25,000	\$ -	Net present value	Credit spreads Loan to value ratio	xx% to xx% (xx%) xx% to xx% (xx%)	N/A N/A
Real estate owned						
Office	\$ 23,225	\$ -	Discounted cash flows (DCF)	Discount rate Terminal capitalization rate DCF term	xx% to xx% (xx%) xx% to xx% (xx%) X-X years (X years)	N/A N/A N/A
Line of credit						
Other	\$ 43,000	\$ 51,000	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	N/A - fund level debt instrument xx% to xx% (xx%)	xx% to xx% (xx%)
Notes payable						
Other	\$ 77,115	\$ 61,690	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	N/A - fund level debt instrument xx% to xx% (xx%)	xx% to xx% (xx%)
Repurchase facilities						
Other	\$ 32,500	\$ -	Discounted cash flows (DCF)	Loan to value ratio Market interest rate	xx% to xx% (xx%) xx% to xx% (xx%)	N/A N/A

4. REAL ESTATE INVESTMENTS

The Fund's real estate investments consist of real estate loans, which are classified as mortgage and other loans receivable, preferred equity investments, debt securities and real estate and improvements.

The Fund's real estate loans are all secured by a mortgage interest in the underlying property serving as collateral. These loans do not have any participating rights in the operations of the underlying properties.

The Fund's preferred equity investments represent investments in underlying joint ventures with a separate third party. Through these joint venture arrangements, the Fund earns a preferred return based on the capital it has committed, but does not have any incremental participating rights.

The Fund's real estate and improvements represents an investment in an apartment complex location in CITY, STATE. On July XX, 20CY, the Fund's real estate loan for this investment was converted into a wholly-owned real estate asset as part of a deed in lieu of foreclosure agreement between the Fund and the borrower. As of December 31, 20CY, the property was recorded within real estate and improvements in the accompanying consolidated statement of net assets.

A summary of these investments as of December 31, 20CY and 20PY is presented in the table below.

Footnote 4 - Real Estate Investments

Investment	City, State	Loan Type	Investment Date	Maturity Date	Interest Rate (fixed/variable)	Interest Rate Floor	Total Commitment	December 31, 20CY			December 31, 20PY			
								Unfunded Commitments	Investment at Cost	Investment at Fair Value	Unfunded Commitments	Investment at Cost	Investment at Fair Value	
Mortgage and other loans receivable														
Apartment														
Loan 1	City, State	Senior loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 25,000	\$	\$ 43,585	\$ 43,585	\$	\$ 23,509	\$ 25,571	
Loan 2	City, State	Mezz loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 44,000	\$	\$ 43,585	\$ 43,585	\$	\$ 42,097	\$ 42,097	
Total apartment							\$ 69,000	\$	\$ 43,585	\$ 43,585	\$	\$ 65,606	\$ 67,668	
Industrial														
Loan 3	City, State	Bridge loan	1/1/XXXX	1/1/XXXX	xx.x%/xx.x%	xx.x%	\$ 90,650	\$ 20,000	\$ 70,165	\$ 72,165	\$ 21,500	\$ 69,150	\$ 69,150	
Total industrial							\$ 90,650	\$ 20,000	\$ 70,165	\$ 72,165	\$ 21,500	\$ 69,150	\$ 69,150	
Total mortgage and other loans receivable								\$ 113,750	\$ 115,750		\$ 134,756	\$ 136,818		
Preferred equity in real estate														
Apartment														
Pref 1	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 13,600	\$	\$ 7,865	\$ 8,820	\$	\$ 2,701	\$ 2,978	
Pref 2	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 36,283	\$ 15,000	\$ 27,641	\$ 28,845	\$ 15,000	\$ 24,641	\$ 24,782	
Total apartment							\$ 49,883	\$ 15,000	\$ 35,506	\$ 37,665	\$ 15,000	\$ 27,342	\$ 27,760	
Industrial														
Pref 3	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$	\$	\$ 18,519	\$ 20,749	\$	\$ 14,519	\$ 15,011	
Pref 4	City, State	Pref	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$	\$	\$ 19,074	\$ 20,496	\$	\$ 14,519	\$ 15,011	
Total industrial							\$	\$	\$ 37,593	\$ 41,245	\$	\$	\$ 41,861	\$ 42,771
Total preferred equity in real estate								\$ 83,200	\$ 89,278		\$	\$		
Debt securities														
Investment 1	Various	CMBS	1/1/XXXX	1/1/XXXX	xx.x%	xx.x%	\$ 55,000	\$	\$ 20,000	\$ 25,000	\$	\$	\$	
Real estate owned														
Office 1	City, State	N/A	1/1/XXXX						\$ 23,509	\$ 23,225				

5. LINE OF CREDIT, NOTES PAYABLE, AND REPURCHASE FACILITIES

Line of credit, notes payable and repurchase facilities consist of the following as of December 31, 20CY and 20PY:

Footnote 5 - Line of Credit, Notes Payable and Repurchase Facility

	Maximum Facility Size	20CY Cost	20CY Fair Value	20PY Cost	20PY Fair Value	Interest Rate ¹	Weighted Average Interest Rate	Maturity Date	Terms ²
Line of credit									
Line of credit	\$ 100,000	\$ 43,000	\$ 43,000	\$ 51,000	\$ 51,000	Weekly Variable ³	5.25%	XXXX	I
Total line of credit	\$ 100,000	\$ 43,000	\$ 43,000	\$ 51,000	\$ 51,000				
Notes payable									
Note payable #1	\$ 30,000	\$ 29,153	\$ 30,000	\$ 28,967	SOFR (30-day) + x.xx%	7.80%	XXXX	I, PP	
Note payable #2	35,000	32,986	35,000	32,723	SOFR (30-day) + x.xx%	6.10%	XXXX	I	
Note payable #3	15,000	14,976	0	0	SOFR (30-day) + x.xx%	6.50%	XXXX	I	
Total notes payable	\$ 80,000	\$ 77,115	\$ 65,000	\$ 61,690					
Repurchase facilities									
Repurchase facility #1	\$ 50,000	\$ 32,500	\$ 32,500	\$ -	\$ -	x.xx%	6.82%	XXXX	I
Total repurchase facility	\$ 50,000	\$ 32,500	\$ 32,500	\$ -	\$ -				
Total	\$ 150,000	\$ 155,500	\$ 152,615	\$ 116,000	\$ 112,690				

¹ As of December 31, 20CY, SOFR was x.xxxx%.

² Loan Terms PP=Prepayment penalties applicable to loan, I=Interest only, P&I=Principal and Interest

³ The Weekly Variable Rate shall be the minimum rate of interest necessary, in the professional judgment of the Remarketing Agent, taking into consideration prevailing market conditions, to enable the Remarketing Agent to remarket all of the Bonds on the applicable Rate Determination Date at par plus accrued interest on the bonds for that week.

The Fund has a Repurchase Agreement ("RA") with a lender that has a capacity of \$XXX and an option to upsize to \$XXX. Under the RA, the Fund's wholly-owned subsidiary will sell eligible loans to the lender with a simultaneous agreement by the lender to sell the loans back upon request of the Fund (subject to contractually defined parameters) on the related repurchase date. The Fund can revolve eligible loans on and off the facility as per the RA. In accordance with ASC 860-30, *Secured Borrowing and Collateral*, the Fund has accounted for the sale of the loans under the RA as secured borrowings as the Fund's subsidiaries maintain effective control over the transferred loans and investments.

The interest rate under the RA is dependent on the type of investment, generally within a predetermined range and is determined on a loan by loan basis. The Fund has pledged mortgage and other loans receivable investments with an estimated fair value of \$XXX as of December 31, 20CY as collateral to the RA. The Fund may be required to post margin under the RA if there is a material adverse change in the credit characteristics of a particular loan with respect to the underlying property, borrower, or particular real estate market. The Fund was not required to post any margin under the RA as of December 31, 20CY.

The following table shows the aggregate amount of maturities of the Fund's debt obligations over the next five years and thereafter as of December, 20CY:

Year Ended December 31

20CY+1	\$	-
20CY+2		43,000
20CY+3		30,000
20CY+4		35,000
20CY+5		-
Thereafter		<u>47,500</u>
 Total	 \$	 <u>155,500</u>

The Fund has evaluated its debt instruments to identify those maturing over the next 12 months. The Fund has \$XX of debt maturing within the next 12 months, which it intends to settle through refinance or repayment with cash from financings, or net cash flows from operations.

The Fund's loan agreements contain financial and non-financial covenants, including requirements regarding net assets, leverage ratio, and debt service coverage ratio. The Fund believes it was in compliance with all covenants as of and for the year ended December 31, 20CY.

6. PARTNERS' CAPITAL

The notes to the consolidated financial statements provide only general information pertaining to the Agreement. [Members] [Limited Partners] should refer to the applicable Agreement for a more complete description of the Agreement provisions.

Committed Capital

[Closed end fund example] As of XXX the Partnership has total commitments of \$XXXX. The General Partner may call capital up to the amount of unfunded commitments to enable the Fund to make or acquire investments, pay fund expenses or meet other reserve needs for the Fund. The total unfunded commitment as of XXXX is \$XXXX. The ratio of total contributed capital to total committed capital is XX% as of XXXX.

Capital Contributions

[insert language from Agreement]

Capital Withdrawals and Distributions

[insert language from Agreement]

Allocation of Profits and Losses

[insert language from Agreement]

[Carried Interest] [Profit Split] [Promote]

[insert language from Agreement]

Clawback

[insert language from Agreement]

7. RELATED PARTY FEES AND AFFILIATE TRANSACTIONS

Note: The below examples are illustrative only and may not represent a comprehensive list of related party/affiliate transactions for a specific Fund. The intent is to provide full transparency of related party and affiliate transactions of each Fund. Some Investment Managers or General Partners may decide to disclose additional detailed information about related party or affiliate transactions in a separate report to investors.

Third-party payments facilitated by the Investment Advisor/General Partner that are subsequently reimbursed by the Fund do not meet the definition of related party transactions under ASC 850.

The examples include various fees and expenses that may be paid to the Investment Advisor/General Partner and do not necessarily correspond to the types of fees used to calculate the net of fee returns or for performance assessments.

This disclosure is not a tool to be used for comparison across Funds.

The Fund incurred investment management fees and origination fees of \$xxx,xxx and \$xxx,xxx, respectively, for the year ended December 31, 20CY and \$xxx,xxx and \$xxx,xxx, respectively, for the year ended December 31, 20PY as illustrated below.

Investment Management Fees - The Fund has engaged the [Investment Advisor] [General Partner] to provide investment management and other services. Below is a detailed summary of the fees incurred for these services for the years ended December 31, 20CY and 20PY as well as where they are recorded in the consolidated financial statements:

Footnote 6 - Related Party Fees

Investment Management Fees:	Financial Statement Caption	Year Ended 20CY	Year Ended 20PY	Fee Description
Loan Origination	Financing costs	xxx,xxx	xxx,xxx	XX bp of Projected principal balance
Investment Management	Investment management fees	xxx,xxx	xxx,xxx	X% of Net operating income
Total Investment Management Fees		\$xxx,xxx	\$xxx,xxx	

[Add additional fee description details as appropriate]

Investment management fees and origination fees totaling \$xx,xxx and \$xx,xxx were payable at December 31, 20CY and 20PY, respectively, and are included in investment management fees payable within the consolidated statements of net assets.

Other Related Party Transactions with the [Investment Advisor] [General Partner]

[Add more details of any additional related party relationships between the Fund and Investment Advisor/General Partner or for related party transactions where the manager allocates expenses across multiple Funds as appropriate]

8. FINANCIAL HIGHLIGHTS — Open End Fund Example for a Non-Unitized Fund (Required only for entities reporting as investment companies within the scope of ASC 946)

The Fund computes net assets on a quarterly [monthly] basis. An individual limited partner's total return and average net assets may differ due to the timing of contributions and redemptions. The financial highlights for the years ended December 31, 20CY and 20PY are as follows:

Footnote 8 - Financial Highlights

	December 31, 20CY	December 31, 20PY
Net assets, beginning of period	\$ 134,032	\$ 95,799
Income in net assets resulting from operations:		
Net investment income, before asset management fees	30,088	28,943
Net unrealized gain	9,686	5,324
	<hr/>	<hr/>
Total income from investment operations, before management fees	39,774	34,267
Investment management fees	5,400	2,454
	<hr/>	<hr/>
Total income from investment operations	34,374	31,813
Net increase resulting from capital transactions	12,063	6,420
	<hr/>	<hr/>
Net assets, end of period	\$ 180,469	\$ 134,032
	<hr/>	<hr/>
Total return, before management fees¹:	26.3%	22.6%
Total return, after management fees¹:	22.7%	21.0%
	<hr/>	<hr/>
Ratios to average net assets²:		
Total expenses	20.3%	14.6%
Net investment income	16.3%	17.5%

¹Total Return, before / after investment management fees is calculated by geometrically linking quarterly returns which are calculated using the formula below:

$$\text{Net Investment Income before / after Asset Management Fees + Net Unrealized Gains (Losses)} \over \text{Beg. Net Asset Value + Time Weighted Contributions - Time Weighted Distributions}$$

² Average net assets are based on beginning of quarter net assets.

9. COMMITMENTS AND CONTINGENCIES

The Fund is from time to time involved in legal actions arising in the ordinary course of business. The outcome of such matters is not expected to have a material adverse effect on the Fund's consolidated financial statements.

The Fund has investments for which it is contractually obligated to fund additional capital after initial funding. Such additional funding is generally provided in the ordinary course of business and includes unfunded

commitments under investments in mortgage and other loans receivable. The unfunded commitments consist of funding for leasing costs, interest reserves and capital expenditure. Funding depends on the timing of lease-up, renovation and capital improvements as well as satisfaction of certain cash flow tests. Therefore, the exact timing and amounts of such future loan fundings are uncertain. As of December 31, 20CY, the Fund was committed to future funding obligations of \$XXXX on previously closed investments

10. SUBSEQUENT EVENTS

The Fund has evaluated events subsequent through XXXX X, XXCY+1, the date the financial statements were available for issuance.

* * * * *

APPENDIX D – ILLUSTRATIVE CLIENT REPORTING

Debt Fund Manual Note:
Typical client reporting would include TWR (for open-end funds) or IRR (for closed-end funds), but not both.
TWR and IRR are included here simply to provide sample presentation formats.

Sample Fund Level Presentation for Client Reporting

XYZ DEBT FUND		Quarterly Reporting as of		12/31/20X5			
Year	Assets (\$'000)	Leverage (\$'000)	Net Assets (\$'000)	Tier 1 Financial Leverage %	Before Fee TWR (Time Weighted Return) (Loss)	Gross Return (Depreciation)	After Fee TWR (Time Weighted Returns) (Loss)
Q4 20XX	890,000	380,000	510,000	43%	3.23%	0.05%	2.23%
20XX	890,000	380,000	510,000	43%	13.55%	0.00%	12.55%
20XX	902,500	380,000	522,500	42%	14.71%	-0.50%	13.71%
20XX	909,000	400,000	509,000	44%	14.61%	0.10%	13.61%
20XX	900,000	400,000	500,000	44%	13.33%	0.00%	12.33%
20XX	400,000	150,000	250,000	38%	9.10%	0.50%	8.60%
Period	Annualized Gross TWR	Annualized Net TWR	Annualized Gross IRR	Annualized Net IRR			
1-Year	13.55%	12.55%					
3-Year	14.15%	13.15%					
5-Year	13.08%	12.08%					
Since Inception	13.08%	12.08%	13.50%	12.50%			

Notes:

Past performance is not indicative of future results. Performance includes the reinvestment of income. Additional information is available upon request.

- Net Assets and Leverage % shown are as of year end or quarter end, as applicable.
- Tier 1 Financial Leverage includes subscription lines, unsecured and/or secured fund level debt, and investment level secured debt.
- Annual returns are time-weighted rates of return calculated by linking quarterly returns. Income and Appreciation returns may not equal Total Returns due to compounding effects of linking quarterly returns.
- The time-weighted return calculations begin on the date of the portfolio's first external cash flow and end on the date of the last external cash flow. Partial periods are not dropped.
- After Fees Returns (net returns) performance is calculated using actual fees and is net of all fund fees and expenses, including management fees and performance-based fees. Annual investment management fees are 1% of invested capital. No incentive fees have been earned.
- Before Fee Returns and After Fee Returns represent the annual return for the given year. Q420XX returns represents non-annualized, quarterly performance as of 12/31/20XX.
- Annualized Gross and Net Total Returns represents the annualized performance over the indicated number of periods through the most recent year end, 12/31/20XX. The start date for since inception returns is 1/1/20XX.
- Assets (debt investments) are valued quarterly by an external valuation firm. Collateral for the debt investments is valued quarterly by the Manager and valued annually by an external valuation firm. Liabilities are valued quarterly by an external valuation firm.
- Annualized Gross IRR has been calculated using the Level 1a fund IRR methodology and using quarterly cash flows. Gross returns are presented net of investment level costs, but do not reflect the deduction of investment management fees or fund costs. Results are presented gross (before the impact) of the subscription line but net (after the impact) of all property leverage. The terminal value utilized in the IRR calculation is equal to the NAV as of 12/31/20XX.
- The fund utilizes a subscription line to fund its first debt investment. The first investor capital call was September 20XX.
- Annualized Net IRR has been calculated using the Level 4 fund IRR methodology. The Net IRR reflects the deduction of all fund costs, investment level costs, and investment management fees. Carried interest to the general partner has been accrued based on the terminal value equal to NAV as of 12/31/20XX. Limited partners pay ongoing asset management fees ranging from 0 to 150 basis points. Carried interest is charged to investors based on the waterfall hurdle and range from 0 to 200 basis points based on the terminal value equal to NAV as of 12/31/20XX.
- Additional information, including the Fund's valuation policy, accounting policy for fees received from debt investments, and information related to investment management and performance-based fees is presented in the notes accompanying the financial statements.

APPENDIX E – ACKNOWLEDGEMENTS: DEBT FUND MANUAL TASK FORCE

Under the direction of the Reporting Standards Council and Board, the Debt Fund Task Force was established to create this Manual. Members of the Debt Fund Task Force and others who contributed to creating this Manual are:

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The Debt Fund Manual Task Force wish to acknowledge the leadership and members of the NCREIF Committees and CREFC who actively contributed to the contents of this document.