European Association for Investors
in Non-Listed Real Estate

GIPS Executive Committee
CFA Institute

17 July 2017

Subject: INREV's response to the GIPS 20/20 Consultation Paper

Dear Sir / Madam,

Please find attached INREV's response to the GIPS 20/20 Consultation Paper put forward by the GIPS Executive Committee.

We hope to provide a meaningful contribution to your work and remain available should you have any specific questions about the non-listed real estate industry.

Kind regards,

Maurits Cammeraat

Director of Professional Standards

Attachment:

INREV's response to the GIPS 20/20 Consultation Paper

Submitted via email: standards@cfainstitute.org

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About INREV: the voice of the European non-listed real estate investment industry

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed real estate industry. As a pan-European body, INREV represents close to 400 members from more than 27 different countries. INREV is led by institutional investors and supported by other market participants such as fund managers, investment banks, academics, lawyers and other advisors.

Comments regarding the GIPS 20/20 Consultation Paper

INREV welcomes the opportunity to comment on the GIPS 20/20 Exposure Draft.

The Performance Measurement module of the INREV Guidelines focuses primarily on the computation and reporting of historic performance measures of a real estate investment vehicle. Our main focus in this response letter will therefore be the applicability of the proposed GIPS framework to the non-listed real estate industry.

Please note that INREV, ANREV, NCREIF and PREA have provided feedback that is reflected in this response for the purpose of collaboration on the development of global reporting standards for our industry.

1. Structure

Question 1: Do you agree with the pillars concept? If so, should there be any other pillars?

Overall, we appreciate the perspective to start with a top down approach by first identifying the end user of the compliant presentation. The performance information should be catered to their investment intentions in order to facilitate their investment decisions.

Using the definitions you have provided for the three-pillar approach, we have identified the non-listed real estate products for each of the three pillars. For the “one to one” pillar, we agree that composite performance should be the primary presentation. In non-listed real estate, we have individual client products identified as discretionary separate accounts mandates, which may share many characteristics (strategy, risk profile, sector/geography diversification) which would benefit from a composite presentation. For the “one to many” pillar, we think providing fund performance through a product performance report is consistent with how real estate advisers market commingled funds and what real estate investors generally request. For the “one to none” pillar, we have real estate investment asset owners who would benefit from this approach.

Please note that within the real estate industry, there are joint ventures and club deals where the investment(s) are identified and the marketing dissemination is targeted. Using the pillars approach, such structure may be considered “one to many” as there are various parties investing in one product. As an industry, we market and report these structures similar to a “one to one” relationship. Such nuances and the level of control the investors have in the vehicle should be considered while defining relationships related to disseminating performance. Also, please note that a pure product approach within the one to many pillar may limit the ability to aggregate the performance of similar strategies which are included in another pillar. For example, a discretionary separate account (in one to one pillar) may have a similar mandate as a core diversified product (in the one to many pillar).

The proposed framework may be too simple to adhere to the complexity of these types of structures. We encourage the GIPS Executive Committee to continue to work with real estate working groups as they could provide further guidance around these pillars.

2. Pooled Funds

Question 2: Do you agree with the proposed treatment of pooled funds?

Yes. We agree with the proposed treatment of pooled funds as described in the paper.

3. Asset-Class-Specific Guidance

Question 3: Do you agree that asset-class-specific guidance should be consolidated where possible?

Yes, where practical and possible, the asset class specific guidance should be consolidated. The prospective pillars and structure approach adheres to a top-down, investor based decision tree. As such, defining guidance characteristics at the vehicle structure seems to be logical and appropriate, as applicable. Although there are common standards across real estate funds, open end and closed end vehicles have a number of different performance and valuation provisions. The GIPS Executive Committee should consider how to effectively balance the consolidation of guidance with the asset specific nuances of a real estate investment, i.e., its long-term investment horizon where management decisions can directly impact the futures cash flows of the underlying assets. Consolidating guidance may therefore lead to a more streamlined process, however, it risks losing some of these asset specific details that may be more readily flushed out through standards that are allowed to address asset-class specific concerns. We would be pleased to collaborate further with you on this topic.

4. Time-Weighted Rates of Return vs. Internal Rates of Return

Question 4a: Do you agree with the proposal that firms should be allowed to choose whether to present IRRs or TWRRs for any closed-end, fixed life, fixed commitments fund where the firm controls the timing of the cash flows?

No. We do not agree that firms should be allowed to choose whether to present IRRs or TWRs for any closed-end fixed life, fixed commitment fund where the firm controls the timing of the cash flows.

In case firms are allowed to choose, a performance comparison between alternatives is not possible anymore for prospective clients. The comparison against benchmark would also be restricted to the option taken. Given that both concepts have advantages and disadvantages, we believe that firms should apply both metrics. That would give the prospective client a better understanding of the projected returns.

Question 4b: What criteria should be required for a firm to be allowed to present an IRR versus TWRR?

Overall, it should start with cash control. If the adviser lacks the ability to control cash for a respective portfolio, the return metric should default to a TWR. This is the case with open end real estate funds. If the adviser can control the inflows/outflows of cash, the requirement should be IRR as the adviser should be judged on market timing as well.

The GIPS Executive Committee should provide additional clarification regarding the nuances and decision tree regarding these criteria. Similar to previous questions, we hope the Executive Committee will collaborate with the non-listed real estate representatives to define the appropriate use of certain return metrics.

5. Valuation Frequency

Question 5a: For calculating TWRR, do you believe that valuing monthly and at the time of all large cash flow suffices?

No. We recommend that we maintain the quarterly valuation frequency as currently stated in GIPS 6.A.2. "For periods beginning on or after 1 January 2008, Real Estate Investments must be valued at least quarterly."

Since quarterly is the most common valuation frequency for real estate and a higher frequency would not be practical for real estate investment firms, we suggest to include the following exception from the Alternative Investment Strategies & Structures within current guidance: "For some alternative investments it may not be possible to obtain valuations monthly and/or at the time of large cash flows due to their illiquidity or because the pricing source does not provide the valuations on a monthly or more frequent basis. If the pricing source does not provide monthly or more frequent valuations, firms must create a valuation policy that addresses how to determine fair values with the frequency required by the GIPS standards."

Question 5b: For calculating IRR, do you agree with the proposed valuation frequency for all portfolios regardless of the underlying investment or asset class?

Yes. As GIPS compliant presentations are currently provided on an annual basis, an annual valuation seems like a logical criterion for IRR based presentations. Valuation on an annual basis, and when performance is reported to clients/prospective investors may provide sufficient frequency and accuracy given the asset classes that are typically held by such vehicles (illiquid assets). Requiring valuation more frequently may result is burdensome costs for investment managers and investors and my not yield any more precise or relevant values.

6. **Distribution of Composite Compliant Presentations and Pooled Fund Reports to Existing Clients**

Question 6a: Do you agree that firms should be required to provide a pooled fund report to investors in the pooled fund on an annual basis?

No, investment management firms should offer to provide a pooled fund report to investors. If this becomes a requirement, the GIPS compliant pooled fund report should be added to the back of the annual report, similar to the financial statements.

Question 6b: Do you agree that firms should be required to provide a compliant presentation to existing clients in the composite on an annual basis?

No, investment management firms should offer to provide a compliant presentation to investors. In situations that an investor only wants to receive their reports within their intended format, requiring dissemination seems to be unnecessary.

Question 6c: Do you agree that firms should be required to make an offer to provide a composite compliant presentation or pooled fund report to existing clients or pooled fund investors on an annual basis?

Yes, in order to meet the spirit of the GIPS standards we agree that it is important for firms to offer to provide a compliant presentation (or fund report) to current investors who wish to see such a document. Existing clients generally are making an active decision to maintain their investment with the investment manager, in effect rendering those existing clients and prospective clients at the same time. By affording GIPS compliant reports only to prospective investors that are not existing clients the investment manager may inadvertently be providing more transparent information to these prospective investors. Given the continuous re-evaluation and decision making process in which most investors engage, affording them the opportunity to review GIPS compliant information on an annual basis would increase transparency and consistency of information that investment managers provide to the marketplace. Further, it may increase consistency and reduce redundancy within the investment manager arena as a single GIPS compliant report could be used for prospective investors and existing clients.

7. Total Firm Assets

Question 7a: Do you agree with creating a new category of assets as described above?

Yes, we agree there should be an additional category of assets that includes assets managed, advised, and overlaid. By creating the referenced new categories of assets, the enhanced definition of total firm assets may provide prospective clients and existing investors with a deeper understanding of the firm's business, strategy, areas of focus and potential risks.

Question 7b: Which assets should be included in this new category of assets (e.g., UMAs, models, overlay, and advisory-only portfolios)?

From a non-listed real estate perspective, the only additional category that would be included is asset management-only portfolios and serviced assets for lenders.

Question 7c: Should firms be recommended or required to report this new category of assets as well as total firm assets in compliant presentations?

We contend that the new category should be recommended. Requiring firms to present the proposed new categories of assets may create an onerous and heavy reporting burden, particularly for model portfolios or advisory-only portfolios. Conversely, recommending that firms include such categories of assets in compliant presentations, perhaps requiring the firm to disclose whether or not they have chosen to report such categories, would allow firms the opportunity for increased clarity in the firm's total assets without requiring additional reporting when overly burdensome or costly.

8. Non-Fee-Paying Portfolios

Question 8a: Do you agree with no longer allowing firms to exclude non-fee-paying portfolios from composites based solely on fee-paying status?

No, given recent stances taken by regulatory bodies, requiring firms to include non- fee paying accounts (or even assets) may cause firms to report numbers that are not fully in compliance with the GIPS standards, with disclosure, due to laws or regulations that conflict with the standards. It may be worth requiring firms to disclose composite AUM and as a separate data point the AUM of non-fee paying assets managed to the composite to facilitate fair representation and full disclosure. Combining fee paying and non-fee paying portfolios within a composite will distort the net of fee return results.

Question 8b: How should non-fee-paying portfolios be treated for net-of-fees calculations?

Non-fee paying portfolios should not be required to be included in a composite. In the instance of portfolios that pay only an asset management fee it is easy enough to calculate the returns net of a model fee. However, when looking at alternative investments which are more likely to be subject to a performance fee, modelling out these fees on a non-fee paying account and the necessary review of these calculations can add an undue burden on asset managers that offers little to no valuable insight to investors.

9. References to the Firm's Claim of Compliance

Question 9: Do you agree that firms should have more flexibility to state that the firm complies with the GIPS standards?

Yes, we agree that firms should have more flexibility with stating the firm complies with the GIPS standards.

10. Timeliness and Frequency of Compliant Presentations

Question 10a: Do you agree with requiring firms to update compliant presentations on a timely basis?

Yes. We agree that firms should update compliant presentations on a timely basis. Requiring firms to provide more timely compliant presentations (e.g., one year, not more frequently) would help ensure more relevant information is distributed to prospective clients.

Question 10b: How current should the information be required to be in a compliant presentation?

GIPS compliant presentation should not be older than 1 year.

11. Estimated Trading Expenses

Question 11: Do you agree with allowing firms to use estimated trading expenses?

Trading expenses are generally transparent within our industry so estimating trading expenses would not be applicable.

12. Compliant Presentation Numerical Information and Disclosures

Firms are required to include certain numerical information and disclosures in compliant presentations. We hope to eliminate any items that are not particularly helpful or informative.

We would also like to consider whether there are other items that should be required to be included in compliant presentations (e.g., attribution information or asset allocation).

In addition, we are considering whether there are disclosures that are only relevant for a certain length of time (e.g., five years) and should be allowed to be removed from compliant presentations because they are no longer relevant.

Question 12a: Which existing numerical information and disclosure requirements, if any, should be removed?

There are not current numerical information or disclosure requirements for non-listed real estate that should be removed.

Question 12b: Is there any information not currently required that should be required in compliant presentations?

Currently, there is not a lot of guidance within the GIPS standards for transparency with fees and expenses. There are efforts within the real estate and private equity industries to disseminate consistent and transparent disclosures with how advisers charge clients. As part of our global collaboration with ANREV, NCREIF and PREA we are nearing conclusion on a global measure of fund fee load and related disclosures which we would be happy to share and discuss with you.

Question 12c: Are there any disclosures that can be discontinued after a certain period-of-time?

Disclosures that cover a period that is no longer included in the compliant presentation should be considered for removal.

13. General

Question 13: Are there other issues that are important for us to address as part of the GIPS 20/20 project (e.g., private wealth, outsourced CIO, model/hypothetical performance, carve-outs and "building blocks")?

We encourage the Executive Committee and any other relevant committees or working groups to consider how proposed changes will impact the marketing of alternative funds as they relate to the marketing of funds with onshore and offshore feeders and other situations that may be encountered in a fund environment.

Concerning external valuations, the Executive Committee may consider weighing in on the value of an external appraisal (either annual or a three-year period) in the case of closed end funds given that investors cannot enter or exit the fund at will. Please note that annual external appraisals for open end funds should remain a requirement.

Regarding the use of projected IRRs within marketing material and client presentations, we understand that such practices are not included in GIPS compliant presentations. However, in the guidance related to the use of Supplemental Information, the guidance stated for calculating hypothetical performance with actual performance is restricted within and outside of GIPS compliant presentations. We disagree with this overriding requirement and presented this within our response letter to the Supplemental Information exposure draft.