

DEBT FUNDS MANUAL UPDATE

JOINT SESSION – ACCOUNTING, PERFORMANCE MEASUREMENT AND VALUATION

Rivka Altman (Invesco)

Jocelyn Friel

Mark Wojteczko (Deloitte)



REPORTING STANDARDS BACKGROUND

- The Reporting Standards have been developed to promote transparent, consistent and meaningful reporting on performance, risk, fair value accounting and valuation.
- The Reporting Standards build on, but are not intended to replace, established standards issued by authoritative organizations, including, but not limited to the following: the Global Investment Performance Standards (GIPS®) promulgated by the CFA Institute; accounting principles generally accepted in the United States of America (GAAP) 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.
 - Handbook Volume 1 – Standards and Compliance
 - Handbook Volume 2 – Guidance, Manuals, Research, Templates, etc

All available online: <https://reportingstandards.info/standards-and-guidance/>

WHY ARE WE HERE?

- Trillions of U.S. institutional dollars are invested in commercial real estate, with a significant portion allocation to private debt
- Historical lack of industry yardsticks for funds operating in the private debt space
- NCREIF has been exploring ways to close this gap, working closely with industry participants including managers, investors and consultants who provided leadership, guidance and sweat equity during numerous conference calls since 2018
- Phase I exploration is now complete
 - April 2023: Creation of Reporting Standards for Debt Funds
 - Checklist with data requirements for portfolio management, performance and risk, asset management, financial reporting, valuation and compliance
 - August 2023: Release of NCREIF/CREFC Debt Fund Aggregate product

REPORTING STANDARDS FOR DEBT FUNDS

Reporting Standards – Debt Funds Checklist							
Disciplines	Element description	Frequency	Required or recommended element	Applicable account type	Reference	Report Name	Notes
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: <ul style="list-style-type: none"> Investment/property type Region/location Nature of investment (life cycle) Debt type Interest rate type 	Quarterly	Required	All	PM.06		
	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		
Performance and Risk	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		

REPORTING STANDARDS FOR DEBT FUNDS

Disciplines	Element description	Frequency	Required or recommended element	Applicable account type	Reference	Report Name	Notes
	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		
	Financial leverage ratio	Quarterly	Recommended	All	PR.24		
	Distribution yield	Quarterly	Recommended	Open-end	PR.25		
Asset management	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		
	Debt service coverage ratio	Quarterly	Recommended	All	AM.07		
Financial Reporting	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		
	Schedule of Investments	Annually	Required	All	FR.04		
Valuation	Valuation policy statement	Annually	Required	All	VA.01		
	Valuation policy	Required to be maintained and consistently applied		All	VA.02		
	Internal valuations	Quarterly	Required	All	VA.03		
	External valuation of collateral at origination	One-time	Recommended	All	VA.07		

NCREIF / CREFC OPEN END DEBT FUND AGGREGATE

The NCREIF/CREFC Open-End Debt Fund Aggregate

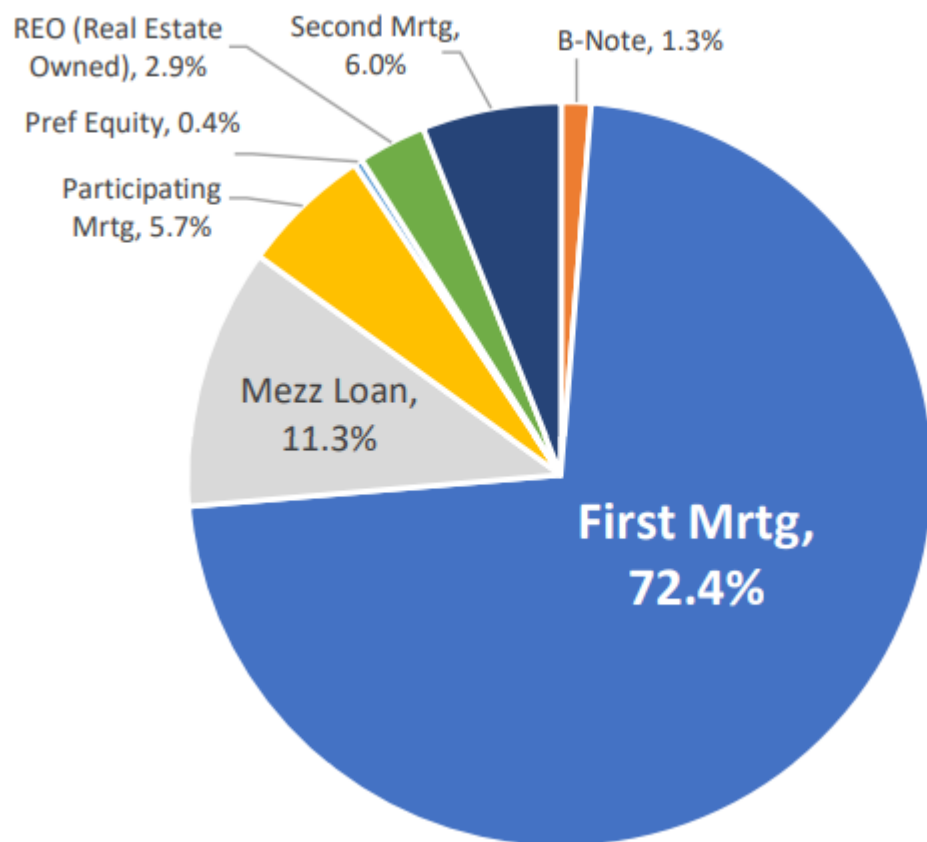
- The NCREIF/CREFC Open-End Debt Fund Aggregate is a fund-level aggregate comprising open-end funds that provide credit and financing to commercial real estate owners.

About the NCREIF/CREFC Open-End Debt Fund Aggregate

- Is a project by the industry for the industry that has been in the works for several years with input from NCREIF, CREFC and its members, and data contributing managers, investors, and consultants.
- Is published quarterly. Results will never reveal individual fund performance.
- Is **NOT a BENCHMARK**, yet, but is a major step toward the goal of creating a more focused index/benchmark of open-end debt funds with a similar strategy around risk/return.
- Will enhance investors' interest and understanding of the rewards and risks 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 contains funds with various strategies and styles ranging from core to value-add, as reported by the managers.

NCREIF / CREFC OPEN END DEBT FUND AGGREGATE (6/30/24)

Loan Structures *(based on PBO)*



BALANCES (\$millions at fair value)

	as of Quarter-end
Cash	\$1,783
Loan Investments	\$39,467
Total Assets	\$42,505
Debt Payable	-\$21,096
Financial Leverage (debt pay / tot assets)	49.6%
Net Assets	\$20,858
Contributions (quarter activity)	\$751
Distributions & Redemptions (quarter activity)	-\$107
Fund Count	17

WHAT IS CREFC?

Commercial Real Estate Finance Council (CREFC)

- CREFC is the trade association for the nearly \$6 trillion commercial real estate finance industry.
- It promotes liquidity, transparency, and efficiency in the commercial real estate finance markets. It acts as a legislative and regulatory advocate for the industry, playing a vital role in setting market standards and best practices, and providing education for market participants.
- Member firms include balance sheet and securitized lenders, loan and bond investors, private equity firms, servicers, and rating agencies, among others. CREFC has approximately 400 member companies and 19,000 individual members.
- CREFC and NCREIF together created the Open End Debt Fund Aggregate, which was launched in 2023 with at least its first year being in a draft “consultation” format.

REPORTING STANDARDS FOR DEBT FUNDS

Phase II – Debt Fund Manual

Project Plan

- Task Force formed with kickoff in March 2024
- Accounting, Performance, Valuation disciplines represented
- Debt Manual Steering Committee formed to serve as an advisory/review body for the Manual.
- Initial Draft recently completed. Currently in review and comment period by task force.
- Next steps: Review, comment, and approval by: 1) Debt Manual Steering Committee and 2) NCREIF committees (Accounting, Performance, Valuation)
- Debt Fund Manual will be reviewed and updated annually

REPORTING STANDARDS FOR DEBT FUNDS

Phase II – Debt Fund Manual

What's the purpose of the manual?

- Provide guidance and instruction on complying with the Reporting Standards for Debt Funds published in April 2023.
- Align with the NCREIF Debt Fund Aggregate product launched in August 2023.
- Promote consistency, transparency, and comparability in accounting, valuation, and performance reporting for debt funds.
- Supplement existing accounting, valuation, and performance measurement manuals.
- Educate users on key accounting, valuation, and performance measurement topics specific to debt funds.
- Anticipated publication by end of year 2024

DEBT FUND MANUAL: ACCOUNTING

Highlights from the Accounting Section

Key concepts covered:

- Investments in mortgage notes and other loans receivable
- Accounting for participating and non-participating loans
- Accounting for preferred equity investments
- Financing alternatives
- Real estate owned (REO) and accounting implications
- Accounting for debt securities

Example financial statements and related footnotes

- Separate account / closed end fund on a gross (operating model) basis in accordance with ASC 960
- Investment company on a net (non-operating model) basis in accordance with ASC 946

DEBT FUND MANUAL: EXAMPLE FINANCIALS

XYZ DEBT FUND

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

	<i>Manual section</i>	20CY	20PY
Assets:			
Real estate investments - at fair value:			
Mortgage and other loans receivable (cost of \$113,750 and \$134,756, respectively)	2.03(a), (g); 2.04(c), (e)	\$ 115,750	\$ 136,818
Investment in real estate preferred equity (cost of \$73,099 and \$41,861, respectively)	2.05	78,910	42,771
Real estate loans held in consolidated CMBS Trust	2.08	55,000	-
Real estate and improvements (cost of \$23,509 and \$0, respectively)	2.07	22,000	-
		\$ 271,660	\$ 179,589
Total real estate investments			
Cash and cash equivalents		88,905	62,692
Interest and other receivables	2.03(e)	3,178	2,131
Other assets		3,591	5,695
		\$ 367,334	\$ 250,107
Total assets			
Liabilities:			
Line of credit - at fair value (cost of \$43,000 and \$51,000, respectively)		43,000	51,000
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)	2.06	32,500	-
Senior obligations of consolidated CMBS Trust	2.08	30,000	-
Investment management fees payable		1,350	1,330
Other liabilities		2,900	2,055
		\$ 186,865	\$ 116,075
Total liabilities			
Net assets:		\$ 180,469	\$ 134,032

DEBT FUND MANUAL: EXAMPLE FINANCIALS

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	
					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%	\$	\$	\$ 23,509	\$ 25,571
Loan 2	City, State	Mezz	1/1/XXXX	xx.x%/xx.x%	\$ 43,585	\$ 43,585	\$ 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 FUND MANUAL: VALUATION

Highlights from the Valuation Section

Key concepts covered:

- Most likely cash flows
- Frequency and timing of valuations
- Non-performance impact on valuations
- Prepayment considerations
- Weighting and concluding to par
- Origination, extension and exit fees
- Financial liabilities

DEBT FUND MANUAL: PERFORMANCE

Highlights from the Performance Section

- Reporting Standards Debt Funds Checklist: Goal of covering all Performance and Risk elements
- Real Estate Debt Specific Credit Metrics: DSCR, LTV, LTC, DY, Subordinate Debt metrics (LTV, DY)
- General Formulas: TWR for Open End Debt Funds; IRR for Investment Level and Closed End Funds
- Fund Level Leverage Unique to Debt Funds – Warehouse financing, CLOs
- Total Global Expenses Ratio (TGER) – Borrower fees retained by Managers to be included in expenses
- Debt Fund Aggregate: Goal of consistency in performance calculations among contributors

SO WHAT'S NEXT?

Initial Draft recently completed. Currently in review and comment period by task force.

Next Steps:

- Distribute to NCREIF Standing Committees for review and comment.
- Task force discuss and incorporate any changes based on feedback received.
- Task Force Debt Manual Steering Committee review and approve debt fund manual.
- Reporting Standards Council review and approve debt fund manual for inclusion in Volume II.
- Publication targes for end of year 2024.

Note: The Debt Fund Manual will be reviewed annually to identify changes and new content needed (similar to the current annual process for other discipline specific manuals.)

THANK YOU!

Accounting

- Japhet Lupondo – CBRE
- Lauren Demartini – Metlife
- Ryan DeReus – LaSalle
- Jeffrey Gonzales - Ares
- Edgar Carlier – BNY Mellon
- Rebecca Devries – Sundance Bay
- Kara Jenkins – Deloitte
- Zack Smith – Deloitte
- Jason Aguiar - EY
- Kathleen Rosenbaum - EY
- Haley Waldron – Invesco
- Dylan Anderson - PwC
- Dillon White – PwC
- Louis DeFalco – PwC
- Veronica Bulman - RSM

Performance

- Neil Zhang – UBS
- Courtney Williams – Crossharbor Capital
- Tanner Beverly – ACA Group
- Courtney Popelka – Invesco
- William Gillmore - Invesco
- Josh Rome – Nuveen Real Estate

Valuation

- Tony Marone – Blackstone
- Ross Rubin – MetLife
- Bob Greene – WA Dept of Natural Resources
- Drew Wunderlich – Chatham Financial
- Rivka Altman – Invesco
- Adam Bryan – Voya
- John Solomon – Deloitte
- Brett M Johnson – EY
- Chris Bailey – PWC
- Dane Anderson – SitusAMC
- Jared Klimowski – SitusAMC
- Joe Sisson – Chatham Financial

THANK YOU

