NCREIF Fall Conference 2024

Hollywood, Florida – Diplomat Resort

Session Code "Performance1"

PERFORMANCE MEASUREMENT COMMITTEE

Rosellen Bounds – Chair

Kim Everaerts – Co-Vice Chair

Samantha King – Co-Vice Chair

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DAY 1 –
Tuesday October 15, 2024

NCREIF
Fall Conference
Hollywood, FL

Performance Measurement Committee

AGENDA

I. Introductions
II. Committee Business
III. Meet & Greet
IV. Task Force Updates
V. ILPA Template
VI. NEW NPI

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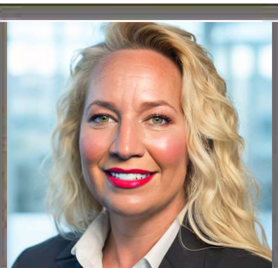
I. Introductions



Rosellen Bounds, ACA Group | Chair

Samantha King, J.P. Morgan Asset Management | Vice Chair

Kim Everaerts, Walton Street Capital, L.L.C | Vice Chair

David DiPaolo, Clarion Partners

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II. Committee Business

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III. Meet and Greet

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IV. Task Force Updates

- Attribution - Joe Sorrentino/Amanda Carrillo/David Hofman
- Dividend Yield - Paul D'Elisa
- SEC Marketing Rule - Rosellen Bounds
- Negative Equity - Rosellen Bounds

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PERFORMANCE ATTRIBUTION FOR GENERAL PARTNERS

Amanda Carrillo – CBRE IM

Joe Sorrentino – Clarion

Matt Gilbert - Nuveen

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Project

- Create and refine the mission statement for attribution for general partners
- Complete a survey around the use of attribution and distribute the results to the committees
- Create a draft white paper utilizing the results of the survey as well as additional committee feedback
- Incorporate comments from NCREIF committees and finalize a white paper to be included within NCREIF's files

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Mission Statement

- Evaluating how general partners use attribution (reporting, insights, process improvement)
- Understanding how GPs calculated and disseminated attribution across their firms
- Exploring if attribution can be embedded within investment processes

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Survey Results

1. Conducted a survey to evaluate how firms calculate, use and disseminate attribution analysis

2. Survey results will be incorporated within the paper

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PMC – ATTRIBUTION INVESTOR FOCUS

David Hofman – IDR Investment Management

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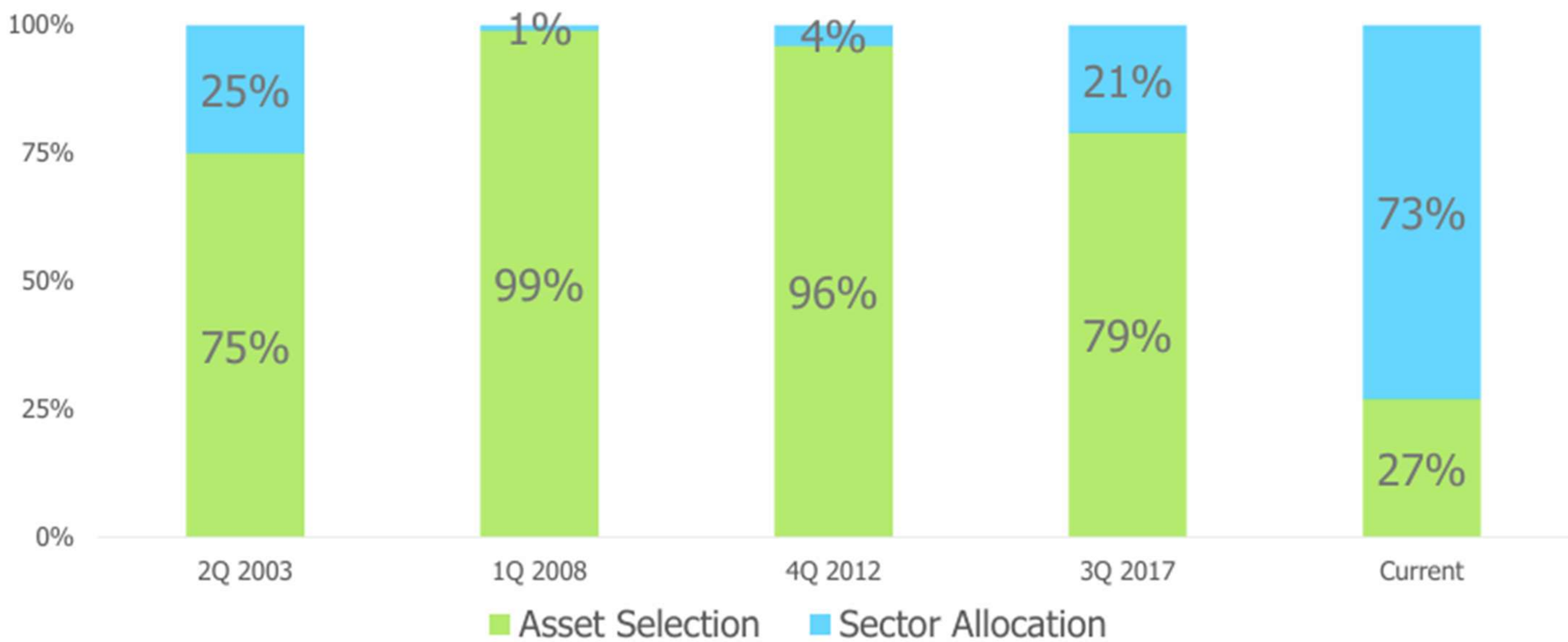
Attribution - Both Prospective and Retrospective

- Focus on the changing composition of Allocation Effect, Selection Effect and Interaction Effect.
- The Allocation and Selection weightings of a total return, changes over time and has significantly impacted recent investor performance far-more.
- Using Attribution doesn't have to be just an after-investment review.

Sources of Outperformance Changes Over Time



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Sources: 'Asset Selection' represents the outperformance due to Selection Effect of Component Funds in the NFI-ODCE Index. 'Sector Allocation' represents the outperformance due to Allocation Effect of Component Funds in the NFI-ODCE Index.

Attribution Changes Over Time

Attribution Investor-oriented focus:

- Over multiple market cycles, recognizing the changes in benchmark in an investment's total return attribution (composition), changes and in some ways is predictable. During market cycles, investing in the "wrong" sector, even opportunistically, had magnified impacts to total returns

PMC – DIVIDEND YIELD TASKFORCE

Task Force Members

- Paul D'Elisa co-chair- Sentinel Real Estate
- Justin Shanahan co-chair- CBRE Investment Management
- Benay Kirk- alterDomus
- Will Strong- Virtus Real Estate Capital
- Jamie Kingsley- NCREIF

Objective:
To enhance the current definition that is in the Reporting Standards, and to clarify the calculation for periods beyond one quarter in order to have a more uniform standard.

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PMC – DIVIDEND YIELD

The Dividend Yield can be interchangeable with the Distribution income yield. The Distribution yield can be found on from page 47 in the Reporting Standards Handbook Volume II.

Distributed income return: Distributed income is defined as the amount of investment income derived from operations that is 1) actually distributed to investors or 2) credited to investors in the case of fund dividend or income reinvestment programs that are elected by the investor. (Mandatory reinvestment programs or automatic cash retention programs are not considered elective by the investor). Distributed income does not include the return of capital or principal, the distribution of realized gains from asset sales (capital gains) nor proceeds from financing activities. The objective is to present the actual cash distributions that are derived from customary and ongoing investment management operations without the distortions related to disposition and refinancing activities. The distributed income formula is defined below:

$$\frac{\text{Distributed Income}}{\text{Weighted Average Equity}}$$

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•**Timing:** The dividend yield should follow standard TWR calculations when using periods greater than one quarter, which means it's calculated quarterly and then chain linked together and/or annualized. The Reporting Standards currently do not address this issue.

However, The dividend yield it is different from the INREV definition which is located on their website:

Distribution-dividend yield
The amount of income (or shareholder loan interest payments) the vehicle distributes to investors on a rolling 12 months basis as a percentage of the average NAV over the same period.

The INREV definition is different as the task force is suggesting chain linking quarterly yields (like performance) and they are using a 12-month numbers (numerator and denominator)-Whereas the numbers might be very similar when computed, it is still not the same definition.

PRESENTED BY THE SEC MARKETING RULE TASK FORCE

Rosellen Bounds from ACA Group will provide an update regarding the SEC Marketing Rule Task Force

Points to make

1. Mission: The SEC Marketing Rule Task Force was established to identify how NCREIF can support managers with guidance to support the implementation of the SEC Marketing Rule.

2. Areas to consider: There are 6 main performance areas that are contemplated in the Rule

   a. Required Performance periods i.e. 1, 5, 10 years (private fund not applicable)
   b. Net of Fees – using actual or model, non-fee-paying portfolios
   c. Related Performance – similar investment policies
   d. Extracted Performance – subset of a single portfolio – e.g. deal level, security, and sector
   e. Hypothetical Performance – target, model, back-tested, or projected
   f. Portability – same mgr(s), similar strategy at the new firm, excluding of portfolios

Points to make

1. What's new?: The SEC came out with an FAQ on February 6, 2024 addressing presenting gross and net for the same time period and same methodology. This is causing firms to take pause and make sure they are meeting this new guidance.

2. What's next? We have a task force established however we haven't seen a lot of push from participants to move forward in creating some type of guidance around the Rule.

3. Next steps- we'll be reconvening the group and can decide if this task force is something PMC should move forward with.

NEGATIVE EQUITY DISCUSSION PAPER (UPDATE)

NCREIF – PMC

October 15, 2024

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Group Members:

- Rosellen Bounds, PMC Chair (ACA Group)
- Jan Johnson – (L&B Realty Advisors)
- Michelle Nyugen (Stockbridge)
- Amanda Carrillo (CBRE)
- Jamie Yan (Blackstone)
- Kerry White (RCLCO Fund Advisors)
- David DiPaolo (Clarion Partners)
- Jeff Fisher

Negative Equity Discussion Paper

Mission: Review the Draft Paper already written and update it to align with current best practices in the real estate industry and ultimately provide calculation options for firms when presented with underwater assets.

Overview: "Currently there is no industry guidance on how to deal with 'negative equity' performance calculations or how to handle client reporting and disclosures in these situations." There are a variety of options available which have been explored by the original authors and the group of volunteers making updates.

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Potential Options

Option 1: No Adjustment to the Time-Weighted Returns: According to this option, there would be no adjustment made to the return calculation and the math is allowed to work itself out. Basically once the denominator reaches zero a return can't be calculated going forward. The option would be to show the return for the last period, disclose the return became zero in the next period.

Option 2: Cap Equity at Zero: In this option, the denominator is replaced for negative equity denominators by zero. Similar to last option, this will result in the firm stopping calculating the return calculation going forward.

Option 3: Cap Equity at $1.00: In cases where there is no recourse- this was presented as an option, but may also be problematic by using an arbitrary value as a minimum amount for the denominator. There are a few reason why this might not be the best- it could produce astronomical returns and a potential in differences in books of record.

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Potential Options

Option 4: Stop Reporting the Calculation, then Start Again: According to this option, once there is a break in the performance, the calculation would be suspended until there was a recovery of the investment and the denominator turns positive again. This would mean that there would be no chain-linking of the return periods.

Option 4a: Stop Start p-variation: The same as above; however, when the cash flows occur the subperiod would need to be rounded up from zero . This issue with this is calculation systems are not generally set up to do such.

Option 5: Absolute Value Denominator: The option would be to preserve the direction of the denominator to use an absolute value. This method would reflect the correct direction of the return, it would not reflect the correct amount invested and therefore would not be a correct rate of return either.

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V. ILPA REPORTING TEMPLATE

Jamie Kingsley
PMC Update
October 15, 2024
NCREIF – Fall Conference

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Evolution of the ILPA Reporting Template

- Who is ILPA?
  - Institutional Limited Partners Association
  - Membership is predominantly focused on:
    - Private Equity
    - Closed-End Funds
    - IRR based
- Current ILPA Reporting Template (version 2016)
  - Focused on fees and expenses, and capital account roll-forward
  - RS created the Real Estate Supplement to the ILPA Reporting Template
    - Aligned with the Total Global Expense Ratio

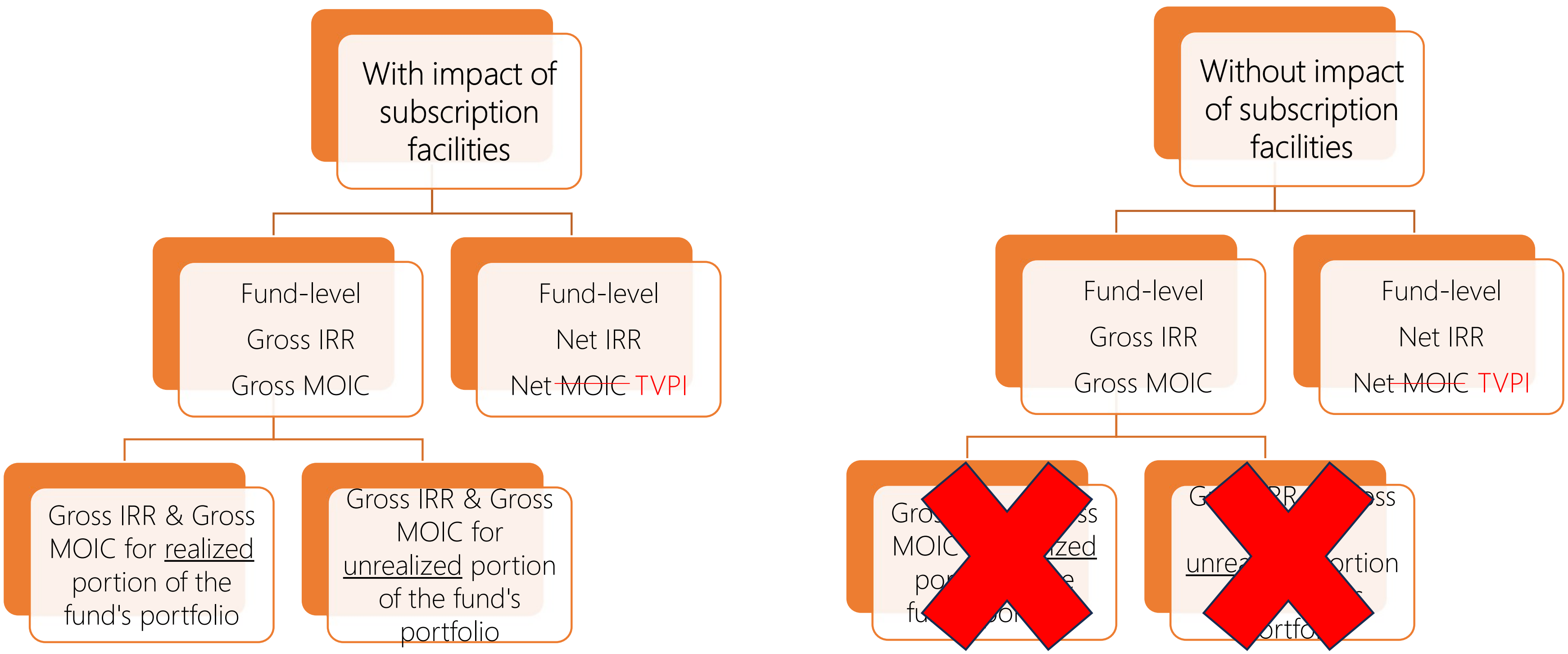
Polling Question

- Are you asked to complete the ILPA Reporting Template for your Real Estate Funds?

1. YES
2. NO

Slide from the Reporting Standards Presentation on the SEC Private Fund Advisers Rule

ILLIQUID FUND PERFORMANCE DISCLOSURE REQUIREMENTS (IRR BASED)



Evolution of the ILPA Reporting Template

- New ILPA Reporting Templates Include:
  - Expanding detail on fees and expenses
  - Detailed cash flow information by transaction type
  - New performance metrics to include IRRs and multiples
- Key items to note:
  - Gross to Net Spread
  - Cash Flows Used
  - Gross only at Portfolio (Investment) Level

- *Fund level* performance based on cash flows from **Fund to Investor**
  - With Impact - **Net** IRR – Required
  - Without Impact - **Net** TVPI – Required
  - With Impact – **Gross** IRR – Recommended (and preferred)
  - Without Impact – **Gross** MOIC – Recommended (and preferred)
- *Portfolio performance* based on cash flows from **Fund to Investments**
  - **Gross** IRR - Required
  - **Gross** MOIC - Required

Source: ILPA public comment survey summary

Key Items to Note

- Gross to Net Spread
  - ILPA: Spread consists of fund fees, *expenses*, and performance-based fees
- Cash Flows Used
  - ILPA: Gross uses cash flows between investor and fund
- Gross only at Portfolio (Investment) Level
  - Impact on Marketing Rule?

- Reporting Standards Gross IRR Hierarchy

✓ **Level 1a: Gross IRR before investment management fees and Fund costs. Uses cash flows from Fund (regardless of cash source) to investment.**

✓ **Level 1b: Gross IRR before investment management fees and Fund costs. Uses cash flows from investors to Fund.**

✓ **Level 2: Fund Gross IRR after deduction for Fund costs but before fees. Uses cash flows from investors to Fund after deduction of Fund costs but before fees.**

Next Steps

- Performance Disclosure Task Force Whitepaper
  - Best practices currently not documented. May assist in completing the pending ILPA Reporting Template
  - Includes:
    - Calculating fund level IRRs with and without the impact of subscription facilities
    - Calculating IRRs for the portion of the fund's portfolio that is realized and unrealized shown separately
    - Calculation and use of Multiple on Investment Capital (MOIC) and Investment Multiple/Total Value to Paid-in Capital Multiple (TVPI)
  - Publication targeted for 2025q1

- ILPA Timeline (as of now)
  - Delivery – EOY 2024, Implementation – 2025, Reporting starts with 2026Q1 data

VI. NEW NPI

Dan Dierking & Fabiana Lotito
PMC Update
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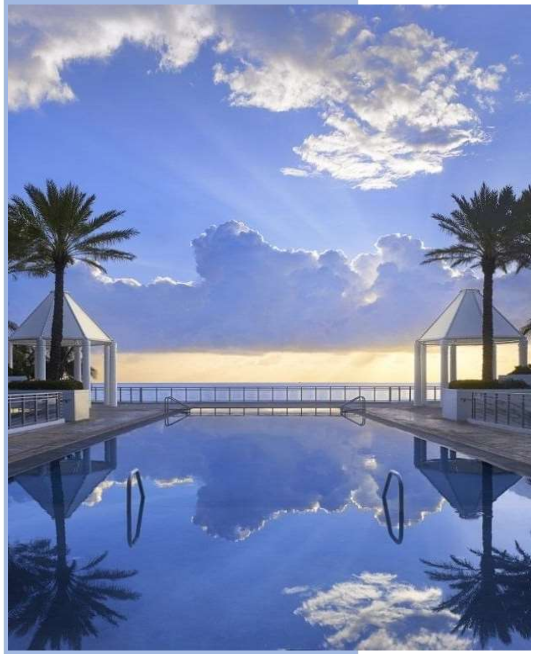
THANK YOU



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Volunteer & Questions

If you are interested in volunteering for any of these task forces or have any questions, please reach out to anyone in the PMC leadership.

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