

NCREIF
SUMMER WEBINAR SERIES

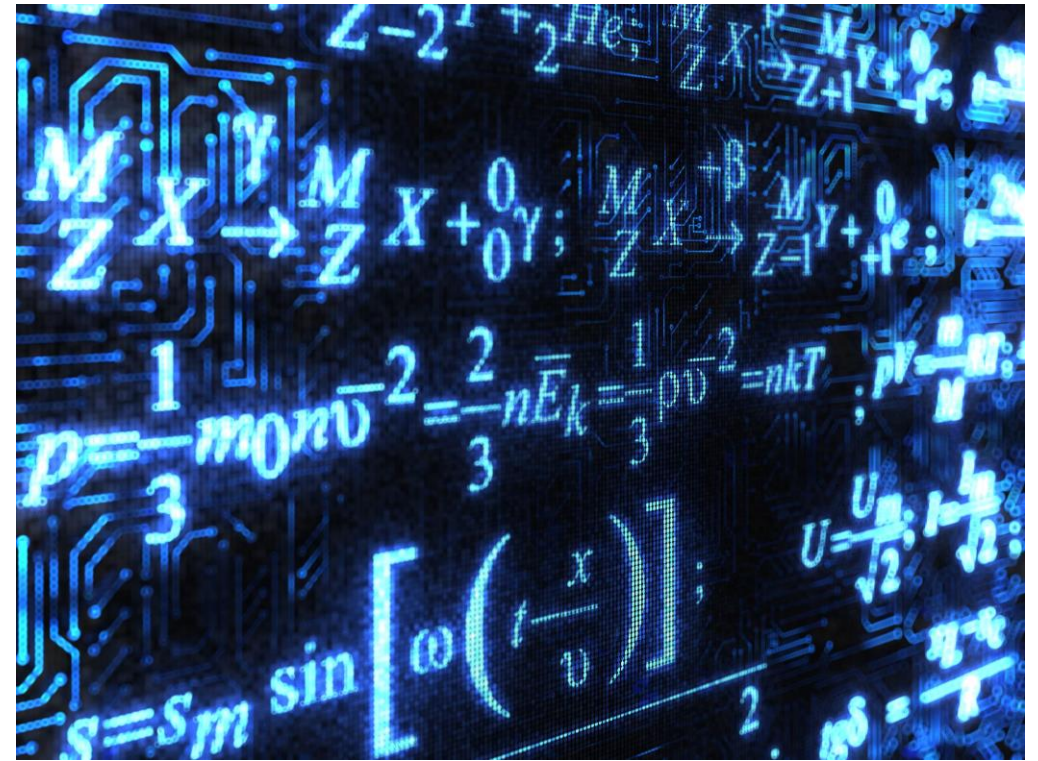
2024



Performance Measurement Committee
August 6th, 2024

PMC Agenda

- Attribution
- Dividend Yield
- SEC Marketing Rule
- Negative Equity Discussion Paper
- RS Performance Manual Review



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Performance – Attribution Task Force

Presented by the Attribution Task Force

*Matt Gilbert from Nuveen will provide an
update regarding the Attribution Task Force*

Points to make

- **Mission** – exploring how GPs, LPs and consultants are using attribution to evaluate the private real estate industry
 - Attribution for investors evaluating funds
 - Attribution for internal analyses, decisions and providing accountability
- **Type of deliverable** – White paper or Presentation

Content / Concepts

- Investor use of attribution
 - Using attribution to compare managers and strategies
 - Evaluating tactical bets
 - Comparing advisers as well as strategies
 - Allocation vs selection decisions across different vehicles
 - Use of NOI growth vs Income yield (distributable vs recycled)
- Internal analyses
 - Splitting the return to decisions
 - Manager -> allocations/selection -> MSA bets -> submarket comparisons
 - Breaking up appreciation
 - Bottom-up analyses

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Performance – Dividend Yield Task Force

Presented by the Dividend Yield Task Force

*Kim Everaerts from Walton Street Capital will
provide an update regarding the Dividend Yield
Task Force*

Points to make

- **Mission:** The dividend yield task force was established to create a standardized definition & calculation of a dividend yield, and also to provide insight on when to use a dividend yield versus a cash on cash yield.
- **Proposed definition:** The dividend yield represents the total amount distributed divided by the time-weighted equity for the period.
- **Guiding Principles:** The guiding principles for calculating dividend yield are: (a) alignment with the way other returns are calculated under NCREIF [i.e. time-weighted and using a consistent denominator]; and (b) consistency with the actual dividend distributed [i.e. no accounting treatment, it should represent what was distributed over a standard denominator]. As an example, for reporting dividend yield, there is no “gross-up annualization” like equities - meaning you don’t take the current quarter dividend yield and multiply by 4 for reporting purposes.

Example calculations

- Distribution Return as defined in RS Handbook Vol. II (and as proposed dividend yield by the task force):

$$\frac{\text{LP Distributions of Net of Fees}}{\text{LP Weighted Average Equity}}$$

- Dividend Yield per INREV Global Definitions Database

$$\frac{\text{Annual Income distributed to investors}}{\text{Average NAV for the period}}$$

- Cash on Cash return

$$\frac{\text{Annual cash flow to investors}}{\text{Equity Invested}}$$

Closing Remarks

- There is currently inconsistency with return calculations between NCREIF, INREV, and ANREV. More work may be needed to create a global definition.
- Examples are not exhaustive. Please reach out if your firm uses alternative calcs or use cases for the task force to consider.
- Goal of creating a white paper for review & comment. More updates will be provided at the October conference.

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Performance – SEC Marketing Rule Task Force

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

- **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.
- **Areas to consider:** There are 6 main performance areas that are contemplated in the Rule
 - Required Performance periods i.e. 1, 5, 10 years (private fund not applicable)
 - Net of Fees – using actual or model, non-fee-paying portfolios
 - Related Performance – similar investment policies
 - Extracted Performance – subset of a single portfolio – e.g. deal level, security, and sector
 - Hypothetical Performance – target, model, back-tested, or projected
 - Portability – same mgr(s), similar strategy at the new firm, excluding of portfolios

Points to make

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

Polling Question # 1

1. Would guidance on the SEC Marketing Rule be useful to your role at this time?
 - a. Yes
 - b. No

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Performance – Negative Equity Discussion Paper (Update) Group

**Presented by the
Negative Equity
Discussion Paper
(Update) Group**

*Rosellen Bounds from ACA Group will provide an
update regarding the Negative Equity
Discussion Paper (Update) Group*

Points to make

- **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.

Potential Options

1. **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.
2. **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.
3. **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.

Potential Options

4. **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.
5. **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.
6. **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.

Recommendations

Next Steps: There are a number of recommendations that are suggested. Right now we are aggregating comments and determining what will be included.

This will be sent to the appropriate groups and follow the NCREIF process for review.

For now- please share what your firm has done in the next poll.

Polling Question # 2

2. What option has your firm used when it comes to calculating an asset with negative equity? (Check all that apply)
 - a. TWR
 - b. IRR
 - c. Used \$0
 - d. Used \$1
 - e. Stopped presenting the return due to a break i.e. incalculable

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Performance – RS Performance Manual Review Task Force

Presented by the RS Performance Manual Review Task Force

*Samantha King from JP Morgan will provide an
update regarding the RS Performance Manual
Task Force*

Performance and Risk

NCREIF / PREA Reporting Standards

reportingstandards.info

- **Goal:** Have the constituency, performance measurement review this for potential comment to ensure it remains current and serves as a guide in promoting consistency across the industry.
- **How:** 102 pages; 7 major topics covered (excluding the appendix)
 - **Active Task Forces:**
 - Performance attribution (section 7)
 - Time weighted returns (Section 1) – Underwater assets
 - **Conferences:** will be added to the agenda, 1-2 sections and the committee will be seeking your feedback in the event you firm/company has concerns or simply a different method, that could serve the larger community.
 - October Measures of Dispersion and Risk (section 5)

Polling Question # 3

3. With the SEC's Private Fund Rule fully vacated- will your firm be making changes to client reporting?
 - a. Yes
 - b. Yes, we will follow the forthcoming ILPA template and make necessary adjustments
 - c. No

Volunteer & Questions

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

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Thank you!

NCREIF Performance Measurement Committee

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national council of real estate
investment fiduciaries