

CFA Institute
Centre for Financial Market Integrity
Reference: Global Investment Performance Standards
P.O. Box 3668
Charlottesville, Virginia 22903
United States of America

30 June 2009

Exposure Draft of the 2010 Global Investment Performance Standards (GIPS) – Investment Property Forum response to the consultation

Introduction

This response is made on behalf of the Investment Property Forum (IPF), which is a UK-based membership organisation of professionals all active in the UK or international property investment markets. The organisation has a diverse membership of over 1800, which includes investment agents, fund managers, bankers, lawyers, researchers, academics, actuaries and other related professionals. It has branches in London, Scotland, the Midlands and the North of England. The IPF's mission is to improve the awareness, understanding and efficiency of property as an investment for its members and other interested parties, including government, by: undertaking research and special projects; providing education, and encouraging discussion and debate. The IPF is not a lobbying organisation.

The group, which contains the following members, has prepared this response to the exposure draft of the 2010 GIPS document on behalf of the IPF:

Iain Reid – Chief Executive Officer and Chief Investment Officer Protego Real Estate Investors
(Chairman)

Anne Lucking - European Director, LaSalle Investment Management

Ian Cullen - Head of Systems and Information Standards, Investment Property Databank (IPD)

Guy Morrell - Head of Multimanager, HSBC Global Asset Management (UK) Limited

Bill Hughes - Managing Director, Legal and General Property (LGP)

Andrew Banks - Finance Director, Legal and General Property (LGP)

Sue Forster – Executive Director, Investment Property Forum (IPF)

The professional biographies of these individuals are appended.

The IPF is represented on the UKIPC by Iain Reid and supports the response it has made to the GIPS 2010 exposure draft. This submission is by way of amplification of its views entirely related to real estate.

Overall comment

The IPF is currently conducting a poll of its members to establish the extent of their use and compliance with GIPS, as well as their attitudes towards it and any difficulties they may find in meeting its requirements. Unfortunately, the results of this are not yet to hand and we will make a supplementary response, albeit this will be after 01 July 2010, should we feel these make any further contribution.

However, it is the perception of the group that, whilst they wholeheartedly support the objective of GIPS, they believe that the difficulty of complying absolutely with the requirements as stated can be considerable and may well lead to a far from optimum level of compliance. It may be, therefore, in the interests of investors if greater flexibility or choice was introduced in certain areas so that a significantly greater level of realistic compliance can be achieved without a significant sacrifice of standards in practice. In any case, we are sure that investors are already aware that strict and superficial comparison of performance figures without careful consideration of specific circumstances is always unwise in the real estate arena. We feel that the difficulty of evolving a tightly prescribed set of rules and requirements on a global basis is particularly difficult for real estate.

Unlike, probably, any other asset class, there are significant variations from country to country in many respects in the nature of real estate investment, including the following:

- traditions of investment manager practice;
- investor attitudes and expectations;
- local leasing practice;
- statutory controls on owners and occupiers;
- cultural and professional approaches to valuation and appraisal;
- the evolution and impact of professional and particularly institutional investment in the overall market;
- market measurement and benchmarkability

We have, therefore, simply indicated agreement or otherwise with various proposals, but in others where we feel this does not provide a practical solution, we have recommended a different approach. We make these comments by following the section numbering of the GIPS 2010 exposure draft.

Detailed comments

0. Fundamentals of compliance

- 0.A.3 Measurement of real estate investment performance must be based upon market values. We are, however, conscious of the scope for differing interpretations of this in different market conditions in different countries and we support the use of Fair Value, since its definition seems to us to promote the possibility of greater uniformity. It is important not to allow methodologies to overtake the principle involved.

We believe an important issue in this respect exists in relation to the performance measurement of assets, which are holdings in private fund vehicles, particularly closed-ended ones. This is quite distinct from the performance measurement of the assets within such a vehicle itself. It is plain that holdings in private funds rarely change hands at the NAV. They go to a premium in strong market conditions and to a discount in

circumstances such as those that exist at present. Logically, this market price is a reflection of the perceived difference between the clearing price of the assets in the market at any time and their latest valuation plus the effect of any leverage in the portfolio, all adjusted by specific supply and demand for such a holding.

It is normal market practice for such investments to be valued and measured as if NAV is market or Fair Value but this is plainly not always the case. There is considerable controversy and disagreement within the industry in the UK on this issue and the group does not feel able to make a specific recommendation to GIPS in relation to it. However, we would recommend that full consideration be given to this question prior to the next set of amendments being prepared.

However, we think the principle is let down by the stated definition of Fair Value which we consider rather equivocal. We would prefer "...the estimated amount at which an asset would be exchanged...between willing parties". The hierarchy of approaches to valuation is enough to explain this further. However, in real estate there is a supplementary requirement that the rules and guidance of local professional valuers bodies must be adopted, so we feel this is acceptable.

3. Composite construction

- 3.A.3 We believe that it may be justified in the early stages of the creation of a portfolio that it should not be included in a composite, owing to the potentially very high incidence of transaction costs. These costs vary widely from country to country and this issue is, therefore, of greater or lesser import according to the circumstances. However, we do not think the guidelines permit of this, nor do they allow a disclosable option to exclude transaction costs. We have not been able to formulate a proposal at this time which would be a solution to this problem but believe this would be useful and that the issue should be recognised.

5. Presentation and reporting

- 5.B.4 Numerous difficulties arise in real estate from any requirement to comprehensively provide compliant data historically. It is not appropriate to attempt to create a historic valuation and we believe that a house should be able to present less than five years compliant data for those parts of its business for which it does not exist and to allow these areas to gain compliance as soon as possible. Once compliance is achieved it may not of course be suspended. Further difficulties could arise, for example, relating to corporate acquisition, where the business acquired does not have compliant performance history whilst the acquiring company already is compliant. Unless staggered incorporation was allowed, the acquiring company's status would fall away for at least five years!

6. Real estate

- 6.A We would wish to promote the general aspiration that all valuations should be independent. Furthermore, it is most important that all assets should be valued at the same date in every time period concerned. However, we believe that there are various types of close-ended funds where the requirement for quarterly valuations and, indeed, the use of time weighted returns is not relevant and that their performance need only be measured upon the final realisation of the fund and that, by an SIIRR. These

include opportunity funds and other higher risk funds where the manager has significant control over capital flows and where a comparison of TWRs may be inappropriate and valuations not even be conducted.

With regard to the requirements and recommendations for closed end funds in general, we have some difficulty with a blanket application. Many of these funds are designed to offer strategic exposure and time weighted returns are, therefore, appropriate. SIIRRs may not be appropriate but are harmless if a recommendation, which means they are an option. It is true that there are also funds which exhibit some of the characteristics of both ends of the risk scale and for whom either or both types of return may be appropriate. However, we think a special case needs to be made for opportunity funds and certain similar funds to be measured as suggested above and, therefore, not to otherwise prevent a house's compliance during the period of its life. If the SIIRR is used then cash held on account should be included. If time weighted returns are used, it should not.

- 6.A.8.b We see little benefit in this proposed disclosure in the light of the definition of Fair Value which, we think, makes it superfluous. It could be interpreted that it implies that there is a choice of methodology when this is not the case. Fair Value is Fair Value. Knowledge of the methodology is of dubious benefit. It could and probably would change at different valuation dates, depending on market circumstances and also a variety of methodologies could be employed rather than one.
- 6.A.8.c We do not understand the need for this clause. There is only one Fair Value. The existence of values for other purposes is only likely to confuse a consumer of GIPS compliant data.
- 6.A.8.d This seems to conflict with the object of confidentiality in that if you have fewer than five portfolios you do not have to state how many there are. We agree with the measure of dispersion but would suggest that the number of portfolios should be quoted regardless of the number.

Appendix D - GIPS valuation principles

- 13. We understand the thinking behind this requirement to disconnect the quantum of fees from the valuations but this would require a fundamental change of practice in the UK. This is not considered to be an issue here but we would consider this to be a sensible step. We will include a question related to this in our managers' opinion poll.
- 15. We do not agree with this clause for the reasons stated above in item 13.
- 16. We do not agree with this clause for the reasons stated above in item 13.

Miscellaneous

We understand that a compliant track record may be based upon annual (probably but not necessarily calendar) year performance or rolling quarterly annualised. We believe that being based upon annual (calendar) years is a satisfactory system for real estate and this might obviate the need for (compulsory) quarterly valuations altogether. Beyond Q1 in any year, a manager



New Broad Street House
35 New Broad Street
London EC2M 1NH
tel 020 7194 7920 fax 020 7194 7921
email ipfoffice@ipf.org.uk web www.ipf.org.uk

could simply supply year to date numbers if quarterly figures were available or not if they were not. Frankly, using quarterly standard deviations without rigorously marked to market property valuations is likely to be self-deluding, if not dangerous, but annual ones that could be compared with a decent sized index / benchmark could be acceptable.

Our overall view on valuation frequency is that, although quarterly independent may be best practice, it would be better to embrace managers who can meet the standards on an annual basis than simply to prevent them being compliant due to their inability to go quarterly, for whatever reason.

APPENDIX

Iain Reid, Chief Executive Officer and Chief Investment Officer, Protego Real Estate Investors

A founder of Protego Real Estate Investors LLP in 2004 and a Fellow of the Royal Institution of Chartered Surveyors. Iain was previously, since 2000, Chief Executive of Aberdeen Property Investors International.

Over the preceding period since 1993, Iain was CEO and CIO of Barclay's Property Investment Management.

During the 1990's, Iain was responsible for creating Property Index Certificates (a bond structure), Property Index Forwards and some of the first private institutional co-investment vehicles in the UK.

In the period from 1986 to 1992, Iain was International Head of Research at Richard Ellis, Property Consultants, where he was responsible for developing one of the first property return forecasting systems and the creation of the U.K.'s first monthly index of the property market. Up to 1986 Iain was the Managing Partner of Richard Ellis' UK Investment Management Division.

Iain is a member and former Chairman of the IPF's Property Derivatives Interest Group; a member of the UK Investment Performance Council; the NAPF's Property Investment Sub-Committee and the IPD Index Consultative Group.

Anne Lucking, European Director, Client Services, LaSalle Investment Management

Anne is responsible for creating and managing relationships with investors, clients and investment consultants from the UK and the Nordic Region, who invest in LaSalle's products and services around the world.

With over twenty five years of experience in the property industry, Anne has worked in a number of investment areas: marketing real estate products and services, real estate investment management company acquisitions, fund manager of both unlisted funds/derivatives portfolios (a multi-manager) and direct real estate commingled funds, direct and indirect transactions, development funding, direct development and asset management. Anne joined LaSalle in 2004 from Aberdeen Property Investors (API)/Barclays Property Investment (BPI). She initially trained and qualified at Richard Ellis, working for a short period as an investment agent.

Anne holds a BSc (Hons) in Land Management from Reading University. She is a Fellow of the Royal Institution of Chartered Surveyors and is registered and authorised by the FSA to conduct Investment Management Activity.

Dr Ian Cullen, Head of Systems and Information Standards, Investment Property Databank (IPD)

Dr Cullen is a founding Director of IPD, is an economist with extensive experience of portfolio analysis, investment indices and property market research. He read Philosophy, Politics and Economics at Oxford and achieved MPhil and PhD qualifications at University College London, producing a doctoral thesis on applied urban analysis, which was subsequently published. He taught

analysis methods and researched in the planning section of the Bartlett School at UCL for many years, where he also directed the Computer Unit. At IPD Dr Cullen is responsible for supervising the information services provided to investor clients in the UK and the Netherlands, and overseeing IPD's Index design and production worldwide, including their use in derivatives markets and related products.

Guy Morrell, Head of Multimanager, HSBC Global Asset Management (UK) Limited

Guy joined HSBC in 2004 to establish the Real Estate Multimanager team, which is responsible for evaluating and investing in third party property funds for the HSBC Group. In August 2008 Guy was appointed as the head of HSBC's Multimanager business in the UK whilst retaining his real estate responsibilities.

Guy has 25 years' experience in property investment. He was previously Chief Investment Officer, Global Property, at Henderson Global Investors having joined the group in 1996 to head up its fund management team. Previously he worked in the Property Research Team at Prudential Portfolio Managers and was an investment surveyor at Healey & Baker.

Guy holds a PhD degree from the University of Reading, a first class honours BSc degree from Leicester Polytechnic (now De Montfort University) and is a chartered surveyor. He is a member of the Property Focus Group of the Actuarial Profession, sits on the Consultative Groups of the Investment Property Databank and is on the Management Board of the Investment Property Forum.

Bill Hughes, Managing Director, Legal and General Property (LGP)

Bill joined LGP in November 2007 having previously held the position of UK Head of Real Estate at RREEF, the Real Estate Fund Management business of Deutsche Bank. Prior to that Bill was Deputy Managing Director and Head of Research at Schroder Property Investment Management. This followed positions at DTZ Research and JLW Fund Management Strategy.

Bill is an Associate of the Society of Investment Professionals, having passed the Institute of Investment Management and Research exams. He is also a member of the Investment Property Databank Consultative Committee, the UK Green Building Council's Code for Sustainable Buildings Task Group, the BPF Policy Committee and a member of the Property Industry Alliances working group on Real Estate Investment Trusts. Bill is also the current Chairman of the Association of Real Estate Funds (AREF).

Andrew Banks, Finance Director, Legal and General Property (LGP)

Andrew is Finance Director at Legal & General Property (LGP). He is the executive responsible for financial management, risk management, fund reporting and accounting, systems, financial planning and budgeting across all LGP's client Funds.

Andrew recently rejoined Legal & General Property in July 2008. Andy originally joined LGP in May, 1999 and was promoted to Finance Director of LGP in February, 2003. In early 2007 Andy joined the New Star Asset Management Group plc, where he spent 18 months as Chief Operating Officer for Property. Andy was involved with the set up and ongoing operations of the New Star International



New Broad Street House
35 New Broad Street
London EC2M 1NH
tel 020 7194 7920 fax 020 7194 7921
email ipfoffice@ipf.org.uk web www.ipf.org.uk

Property Fund as well as being responsible for the financial management and operations of the New Star Global Property Fund. Andrew is a fellow member of the Institute of Chartered Accountants.

Sue Forster, Executive Director, Investment Property Forum (IPF)

Sue is responsible for running the Investment Property Forum (IPF) and is a full member of the IPF Management Board.

She started her career in commercial property as a valuer at Gerald Eve over 25 years ago, before spending four years at Hillier Parker (now part of CB Richard Ellis) as an investment agent and then moving into fund management. Sue was a partner in the Planning and Development Team at Drivers Jonas, specialising in large-scale town centre redevelopment and commercial leisure schemes. In 1998, she joined the newly-formed Leisure & Hospitality Consulting Team at Ernst & Young. Prior to joining the Investment Property Forum, she ran a publishing company, providing information on the UK and other European commercial property markets, in print and online.

Sue holds a MA in Geography and Land Economy from Cambridge University. She qualified as a Chartered Surveyor in 1983 and also holds a post-graduate Diploma in Property Investment from the 2-year course run by the College of Estate Management.