



To: Members of the GIPS Executive Committee  
From: Lynn Hoover  
Date: June 19, 2009  
Subject: GIPS 2010 Exposure Draft Feedback

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I appreciate the opportunity to comment on the proposed changes to the Global Investment Performance Standards. I have decided to personally comment on Section 6 – Real Estate since our firm manages real estate investments internally. I was just appointed to the USIPC which is deeply involved in providing feedback to the proposed changes.

As a public fund, we are unique in that approximately 85% of our real estate portfolio is in the direct ownership of real estate assets which is managed internally with a 40+ person staff. Our single biggest concern with the proposed changes is the proposed requirement 6.A.2. We do not agree that a requirement for an independent external appraisal every 12 months adds additional benefit for the following reasons:

1. The Real Estate Information Standards requires independent external valuations at least every 36 months which is consistent with the requirements of many firms and is considered the industry standard.
2. Firms who own real estate assets are required to fair value them every quarter for GIPS and they have the best information about their real estate assets and current market dynamics that impact the values. External valuations are more prone to errors as compared to internal valuations, as external appraisers are not familiar with the assets and/or the complex lease and tenant issues which may affect value. External appraisals may provide the perception of being independent while not actually providing greater accuracy, consistency and transparency.

3. Long term trends indicate that approximately 80% of the return from real estate investments comes from income and only 20% of the return comes from the price component. Granted we are in unusual times with high volatility, but once we get through this period of price correction, we expect to return to the normal historical trends between income and price returns. Having more frequent valuations is therefore unnecessary given the small impact that price return generally has on the total return.
4. With current market conditions, external appraisers have taken widely divergent views on fair value. Many appraisers are confusing/interpreting the “exit pricing perspective” from FAS 157 as “liquidation value” and are not properly reflecting “fair value”. Most sellers today are forced to sell because they either cannot fund capital commitments or make their loan payments and therefore the sales are under distress. Other appraisers are estimating value by looking to the last sales that closed under far better market conditions. There is no quantitative support for proper adjustments to reflect the recent economic turmoil and declining market conditions. The result is an extraordinarily wide range of value estimates. It is imperative that we have a consistent, balanced approach that reflects the current market and that this approach is consistently applied. Annual external appraisals will not alleviate these problems in any way. In fact, annual external appraisals may increase these inconsistencies by forcing a different appraiser to complete the property valuation every year.
5. Cost considerations – although this should be taken into consideration this is not the primary concern. Having said that though, external appraisals are expensive and does not provide demonstrable additional benefit for clients who hold the assets over the long term.
6. Competitive market dynamics should drive the frequency of external valuations if needed more frequently than once every 36 months, not additional performance reporting requirements.

With regards to the proposed requirement 6.A.6, while not an avid user of closed end funds, in principle we support the inclusion of a since inception internal rate of return as a requirement for these funds. Having both internal rate of return and time weighted return measures can create some confusion though for the end user and questions will likely arise about differences between the two return measures. We strongly suggest the use of quarterly or monthly cash flows (as opposed to daily cash flows) for real estate. For benchmarking purposes, it should be noted there is no index available using daily cash flows for real estate – NCREIF is on a quarterly basis.

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For proposed requirement 6.A.15, firms handle leasing commissions and tenant improvements differently – some capitalize and amortize over several years and some expense immediately. This creates comparability issues between income and price returns. Having said this, we support the idea of presenting component returns – also the benchmark provides component returns and this information allows the user to see where the return is coming from.

Thank you again for allowing me the opportunity to comment.

Sincerely,

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Investment Performance Officer