Via Email: standards@cfainstitute.org
CFA Institute
Global Investment Performance Standards
RE: Guidance Statement on the Use of Supplemental Information
915 East High Street
Charlottesville, VA 22902

January 29, 2018

Dear GIPS Executive Committee:

This letter represents the NCREIF PREA Reporting Standards Board’s (RS Board) and Council’s comments to the CFA Institute regarding the exposure draft on the Guidance Statement on Benchmarks. We commend the Global Investment Performance Standards (GIPS®) Technical Committee for developing new and expanded guidance of the use of benchmarking. We agree that the overall goal of the exposure draft has been largely achieved.

Information relating to the "Private Equity and Real Estate" section is helpful in assessing the uses of IRRs and Public-Market Equivalents when comparing performance for private closed-end vehicles. Our sponsors, PREA and NCREIF, publish recognized real estate industry benchmarks: NCREIF’s Open-end Diversified Core Equity Index (ODCE) and Closed-end Value add Index (CEVA); and PREA’s PREA/IPD Property Fund Index so the content of this exposure draft is important to us. We feel the questions posed in the exposure draft were described clearly even though some may be more applicable to private real estate than others.

Respondent
We have been privileged to collaborate with the CFA Institute on numerous projects. A detailed description of the NCREIF PREA Reporting standards, its sponsorship, team and initiatives, can be found on our website, www.reportingstandards.info.

Responses
Our responses to the specific questions posed in the exposure draft are included in Appendix 1 to this letter.

We would be pleased to discuss our comments above or the answers to the specific questions in Appendix 1 with you at your convenience. Please feel free to contact the Marybeth Kronenwetter at 630-469-4088.

Yours truly,

Jerry Silvey
NCREIF PREA Reporting Standards Board Chair
Appendix 1 Responses to Individual Questions

1. Do you agree that firms should be required to disclose why they have chosen an ETF rather than a market index as the composite benchmark?

While not directly applicable to private real estate investments at this point, the use of an ETF would seem more applicable as a benchmark since that would add both fees and transaction expenses to the benchmark making the returns more comparable. Additionally, if an ETF return is to be compared to the composite gross-of-fees return the ETF return should also be gross-of-fees as the gross/net spread of the benchmark should not be a reason to outperform the benchmark. Finally, if both the gross-of-fees and net-of-fees return for the composite are included in the report the compliant presentation should include a disclosure addressing which return stream was used for the benchmark.

2. Do you agree that the ETF chosen must be one in which the returns are comparable to those of the composite?

The arbitrary nature of ensuring "comparability" against a chosen benchmark is difficult to enforce but managers should follow the guidance given by the earlier sections of the Benchmarking document covering "Roles of Benchmarks" and "Selecting an Appropriate Benchmark".

3. Do you agree that the hedging criteria for the benchmark must be disclosed? Do you agree that it should be required that any material difference in hedging between the composite and the benchmark be disclosed?

Requiring disclosure on the possibility of different sources being used for foreign exchange rates seems prudent but does add another factor to include in the materiality policy. The manager should be required to disclose known inconsistencies to the extent that a manager can identify any material differences.

4. Do you agree that firms should be required to select the benchmark that is most consistent with the withholding tax status of the portfolios in the composite?

We agree that the benchmark shown should be comparable on an after-tax basis if applicable and readily available. However, there should be some language included regarding the ranking of factors that make a benchmark "appropriate." For example, choosing a benchmark that may be more appropriate to the strategy first and then seeing if there is a more appropriate version of the benchmark that is most applicable to the tax-status of the composite.

There will also be confusion around whether composites should consider tax-status as a prominent factor when defining or building firm or strategy composites. More description on the level of legal entity that should be considered would be helpful.

5. Do you agree with the creation of custom benchmarks using fees and/or trading costs to provide returns comparable with the net-of fees and/or trading costs composite returns?

Yes, if a standard published benchmark, net-of-fees and trading costs, is not available. This could be construed as being able to customize a benchmark that is already offered on a net basis, but changed (using the gross returns) to apply a fee that is more comparable to the composite. Within real estate, the indices produced by our sponsors (i.e., NCREIF ODCE Index, NCREIF CEVA Index and PREA/IPD Property Fund Index) are commonly used as benchmarks and furnish performance data that is net-of-fees and trading costs.
6. Do you agree that if a net-of-fees and/or trading costs benchmark is presented, the firm should be required to disclose the fee schedule and/or the trading costs used to derive the benchmark returns?

Yes, if the manager is calculating the custom benchmark net of hypothetical fees and transaction costs then the manager should be required to disclose the methodology and fee and expense schedules used to calculate the return. In the case of an index where net of management fees and transaction costs is published no additional disclosure should be necessary.

7. Do you agree with the proposed treatment of price-only benchmark returns?

Yes, in cases where a total return benchmark is not available.

8. Do you agree that if a firm changes a benchmark retroactively, the disclosure of the change should be required to be included in the compliant presentation only for as long as it is meaningful as per the firm’s policy and the disclosure can be removed once it is no longer meaningful?

Yes, if a firm chooses to make a retroactive benchmark change then a full disclosure should be required while the change impacts the periods of returns shown in the compliant presentation. If the date of the retroactive transition has been pushed out of the presentation over time, then a disclosure could be pared down to a summary disclosure including a "more detail available upon request" statement.

9. Do you agree that firms must disclose changes to benchmark ordinal (primary, secondary)?

Yes, firms should be required to disclose changes to any of the benchmarks if multiple benchmarks are shown.

10. Do you agree that firms should be allowed to present the name of the benchmark for a readily recognized index or other point of reference instead of presenting the full benchmark description?

We think this guidance is ambiguous and could be confusing for investment managers in the alternative asset classes since benchmarks used in that segment may be well known to the managers that specialize in the specific asset class but still relatively unknown to a generalist.

11. Do you agree that if the firm is uncertain about whether the benchmark is readily recognized by any potential prospective client, the firm should be required to include the benchmark description?

Yes.

12. Do you agree that if other benchmarks are presented and labelled as supplemental information, that all of the required benchmark disclosure and presentation items should be required to be presented for all benchmarks included in the compliant presentation?

Yes, if they are considered "Supplemental" specific to compliant presentations.