Kennedy Associates Real Estate Counsel, LP
Answers to Questions
REIS Chapter 4
(Submitted April 30, 2008)

1. **Should REIS develop Fund Reporting Standards rather than Investor Reporting Standards?**

   Yes, REIS should develop fund reporting standards as proposed by the REIS Exposure Draft, Chapter 4. However, at this point we recommend changing the required reporting elements to include only the Open-end Funds and recommend reporting standards to the single-investor separate accounts and closed-end investment partnerships.

   Companies charged with reporting on open-end funds have greater flexibility to make changes to report content than those charged with reporting to separate account clients and closed-end partnerships. While separate account clients and members of closed-end partnerships may appreciate the value of REIS compliance, at the end of the day they are most concerned with receiving reports that address their specific reporting needs. It is conceivable that the REIS reporting requirements will fall in line with the requirements of the client (or members), in which case there is no conflict. But, in cases where they differ, a separate account client (or member) will be forced to decide between receiving reports under the REIS standards or receiving reports that are meaningful to them in some other way. It is our belief that they will opt for the later which will result in non-compliant client reports.

   Ideally, all reporting (whether on an open-end fund, a single-client separate account or a closed-end partnership) will follow common reporting deliverables with certain key disclosures. Kennedy supports moving toward a standardized approach for all reporting, however, we are concerned that this chapter may overreach at this point and in doing so momentum for such a development will be stalled or perhaps end unsuccessfully.

   We recommend directing the chapter to the open-end funds, who are better positioned to accommodate such a change, while recommending that non open-end funds elect to adopt the same reporting deliverables. Once the open-end funds are reporting in concert, momentum will likely naturally carry to the separate accounts and closed-end funds. Some of the separate account clients will also have open-end fund investments and will therefore be exposed to the benefits of the required reporting elements in the chapter. They may even advocate for change in the chapter 4 to require that non open-end funds be scoped in.

2. **Is it appropriate that these standards be applicable to single investor separate accounts as well as commingled funds?**

   As discussed above, ultimately yes, but at this point the open-end funds should be required to comply while the separate accounts and closed-end funds encouraged (or recommended) to.

3. **What are the benefits or disadvantages of such a chapter?**

   Comparability of accounting and reporting across all financial products is important to all stakeholders, irrespective of product type or industry (i.e. equities, bonds or real estate). Standardization breeds transparency, efficiency and scalability. It is important that stakeholders receive the most relevant information available on their products in a consistent manner across products. Stakeholder satisfaction will lead to a heightened sense of understanding which will likely result in additional allocations to the asset class.

4. **Do you agree with the notion of establishing both required and recommended Fund Reporting Standards within REIS?**

   Yes. There should be required and recommended reporting standards for Open-end Funds; there should only be recommended standards for separate account and other non Open-end Fund products.

5. **Do you agree that the frequency of line item disclosures presented herein is appropriate for every Fund?**

   Yes, and again they should be recommended for non Open-end Funds at this time.

6. **Do you agree with the proposed effective date of this Exposure Draft? If you do not agree, please propose an alternative.**

   Yes.

7. **Should the standards require annual reporting of a benchmark comparison if a benchmark is stipulated?**

   Yes, if a benchmark is stipulated.

8. **Should the standards require specific disclosure why benchmarks are not presented for a Fund?**

   No. If the chapter requires that a benchmark be reported if stipulated, then not reporting a benchmark implies that no such reporting has been stipulated. There is no reason to explain why a benchmark, which isn't asked for to begin with, is not reported.

9. **Should benchmark comparisons be recommended versus required?**

   If a benchmark is stipulated, then it must be reported. If one is not stipulated, the standards should recommend that a benchmark be reported (but not required). In some cases, an appropriate benchmark may not exist, but in cases where one does, it ought to be reported.

10. **Should all Funds be required to present, at a minimum, condensed U.S. Fair Value GAAP based financial statements quarterly and comprehensive U.S. Fair Value GAAP based financial statements annually in its Fund reports?**

    Yes, only for open-end funds.

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11. Should all Funds be required to present a schedule of investments annually?

Yes, only open-end funds.

12. Should all Funds be required to report all of the information elements presented on the proposed Schedule of Investments? Are there additional elements which should also be required? Is the materiality limit of separate disclosure of the 20 largest investments and each investment representing 5% or more of Net Asset Value appropriate?

The proposed schedule of investments is appropriate. We propose that the table includes a Net Asset Value column which would show the funds equity in each asset and Life-cycle (operating, development etc).

In addition, the standards should include language in the footnotes of the financial report that explains the basis for the current cost and fair values; are they at the fund level (fund interest) or property level (100%)? Also, there should be definitions in the footnotes explaining what Property Type and Investment Structure mean. For instance, if a project is mixed-use, what "type" is it? Also, what are the different kinds of "investment structure[s]?" The standards should provide clear definitions along with a list of Types and Structure for reporters to choose from. Without such a list and definitions, the industry will end up with inconsistent reporting.

We don't see the need for a materiality threshold for reporting. The fund should report all holdings. Perhaps the holdings can be sorted by size of NAV, to give the reader an order of magnitude and impact on performance.

13. Should a management discussion of performance relative to objectives be a quarterly recommendation within REIS? Should the management discussion of performance relative to objectives be required vs. recommended?

No. There should be no requirement of the manager to discuss performance relative to objectives. The manager may elect to do so which is fine, but should not be required to; such a requirement is over-reaching for REIS. Manager's must be afforded to opportunity to discuss what they feel is most relevant for their stakeholders.

14. Should REIS establish specific elements which should be disclosed in the discussion? If so, please describe.

REIS should be careful with making attempts to guide the content of a manager's message to their stakeholders. Up to this point in the questionnaire, REIS has been focused on establishing consistent reporting via comparable accounting and disclosures, which is appropriate for REIS. It seems inappropriate for REIS to dictate what a manager communicates to investors in the Manager

Discussion section, assuming one exists. We feel REIS would be overreaching (and over-governing) in this area.

15. **Do you think that the independent, third party verification of partner/investor capital accounts should be recommended within the Fund Reporting Standards? Provide specific comments to support your answer.**

    No. While it may be a good idea to have investor accounts verified by a third-party, it is not within the purview of REIS chapter 4 to require or recommend it.

16. **Do you think that the independent, third party verification of partner/investor capital accounts should be required within the Fund Reporting Standards? Provide specific comments to support your answer.**

    No. See above.