



# Indexes and Transparency

**NCREIF Virtual  
Summer Conference 2020  
November 10**



# Glossary of Terms

Introduction	Benchmarking	Portfolio	Structuring	Space Markets	Valuation	Terms	Formula
					X	<b>After Tax Cost of Funds</b>	$ATCF = BTCF \times (1 - TR)$ <p>ATCF = after tax cost of funds            BTCF = before tax cost of funds            TR = appropriate tax rate</p>
	X					<b>Annualized Internal Rate of Return (IRR)</b>	<p>Using Monthly Returns = <math>(1 + \text{Monthly IRR})^{12} - 1</math></p> <p>OR</p> <p>Using Quarterly Returns = <math>(1 + \text{Quarterly IRR})^4 - 1</math></p>
X	X					<b>Arithmetic Mean</b>	$\text{Arithmetic Mean} = \frac{(a_1 + a_2 + \dots + a_n)}{n}$ <p>n = number of data points in the sample            a<sub>n</sub> = a value in the data set (in this case, return)</p>
	X					<b>Attribution Analysis Components</b> [See Brinson-Hood-Beebower (BHB) Attribution]	<p>R<sub>i</sub> = fund return for sector i            R<sub>b</sub> = benchmark return for sector i            W<sub>i</sub> = fund weight for sector i            W<sub>b</sub> = benchmark weight for sector i</p> <p>W<sub>i</sub>R<sub>i</sub> = sector i contribution to total fund return            W<sub>b</sub>R<sub>b</sub> = sector i contribution to total benchmark return            W<sub>b</sub>R<sub>i</sub> = fund proportion of sector i            W<sub>i</sub>R<sub>b</sub> = benchmark proportion of sector i</p> <p>R = <math>\sum W_i R_i</math> = fund total return            B = <math>\sum W_b R_b</math> = benchmark total return            S = <math>\sum W_b R_i</math> = fund return if diversified like the benchmark (<i>Notional Selection</i>)            A = <math>\sum W_i R_b</math> = benchmark return if diversified like the fund (<i>Notional Allocation</i>)</p>



# Volunteer Opportunities

## Commitment

- Vice Chair (two year commitment)
- Performance and Risk Manual Update (annual)
- Task Forces: Chart of Accounts, Debt Mark to Market, Occupancy Definition, Analytics Advisors
- Special Projects: Glossary of Terms – Calculations, Global Definitions Database (feedback only)

# Volunteer Examples

## Denominator Task Force



**Table 2 - LIST OF KEY ATTRIBUTES - SCORING OF FOUR CANDIDATE METHODOLOGIES**

Choice #: <sup>1</sup>	1	2	3	4	Comments/Caveats
Short Description of NAV Used:	Accounting	Pre-Fee	Post-Fee	Pre/Post Fee	
Having the same denominator for Gross and Net would be a plus.	✓	✓	✓		"Accounting NAV" is defined as pre-fee if fee is to be paid outside entity and post-fee if to be paid inside entity. Choice #4 is pre-fee for gross and post-fee for net. This property is desired by many practitioners, particularly those who cannot be expected to appreciate rate of return nuances. The "Post-Fee" choice seems to be current industry standard, at least when fees are paid inside the entity.
Having the same denominator for all entity types would be a plus.		✓	✓		Admittedly, it's not clear how often different entity types are compared.
Gross TWR should not be impacted by incentive fees via denominator (as well as, obviously, by numerator).	~	✓		✓	Pretty universal agreement by task force on this feature being important.
NAV should reflect the true amount that produced next period's gross and net income.		✓		~	Nonetheless, Choice #3 proponents may argue that it is only the investor's equity that matters, even for next period gross.
The selected NAV should be the one that better reflects the manager's skill.		✓		~	Based on the belief that the accrued liability is really assets that are also generating income and gain.
The selected NAV should be the one that better reflects the investor's performance.	~		✓	~	Reflects a hold/sell mentality where any reinvestment would imply a settling of incentive fees (although, inconsistently, it does not also deduct implied sale costs).
Not having to track anything in addition to the Accounting NAV would be a plus.	✓	~	~		Choice numbers 2/3 may equate to the accounting NAV if fees are to be paid from outside/inside the entity, respectively.
Rate of return should not mix a pre-fee numerator with a post-fee denominator.		✓		✓	Such does seem like a mismatch, although the fees are from prior periods.
Rate of return should not mix a post-fee numerator with a pre-fee denominator.			✓	✓	Flip side of issue above.
Given the mark-to-market nature of TWR, prior periods should not distort comparisons of TWRs over subsequent periods.		✓		~	In other words, there is no leakage of incentive fees from periods prior to the period of interest. Use of Post-Fee NAV suggests that the current period rate of return should be influenced by incentive fee accruals of prior periods.
Consistent with current industry standard practice	✓		✓		
Overall Score (checkmark equals 1.0, tilde equals 0.5)	4.0	7.5	5.5	5.0	
Overall Score (checkmarks only)	3.0	7.0	5.0	3.0	

<sup>1</sup> In the context of this table, "Pre-Fee" and "Post-Fee" address performance-based fees that have been earned, but not yet paid out.



# James Hendricksen



- Avid scuba diver, volunteer firefighter, and performance measurement voice
- Family man first and foremost



# Performance and Risk Manual

## Update

- Committee voted to approve
- Send manual to other committees for comment
- RS to discuss and approve
- PnR update included in Volume II going forward



# RS Requirement: TGER

$$\frac{\text{Fund Fees} + \text{Vehicle Costs}}{\text{Time Weighted GAV}}$$

- Principal Based Metric: Total Global Expense Ratio
- Required as of 12/31/2020 for ALL Open End Funds plus Closed End Funds launched in 2020 and beyond
- Included in the Management Section of Annual Report
- Accounting submitted disclosure example for Volume II
- Time Weighted GAV as denominator

Ongoing Management Fees	Fund and asset management fees charged by investment managers for their services regarding the everyday running of the vehicle and its portfolio.	Fees charged by the Investment Manager
Transaction based Fees	Fees charged by investment managers for their services regarding the acquisition/disposition of real estate.	
Performance Fees	Fees charged by investment managers after a predetermined investment performance has been attained.	
Vehicle Costs	Third party costs incurred predominantly at vehicle level to maintain and grow its operations.	Costs charged by third parties
Vehicle related Taxes	Expenses related to the tax structure and position of the vehicle.	
Gross Asset Value	Total assets derived from the vehicle accounting standards, e.g. US GAAP, IFRS, and adjusted for specific elements to arrive at a market-relevant gross asset value in accordance with INREV Guidelines / NCREIF PREA Reporting Standards.	Ratio denominator



# Analytics Advisors

## Overview

- Analytics Advisors is a cross-disciplinary team that is tasked with four specific focus areas.
- Iterative progress reporting to NCREIF
- Plan for individual task forces to tackle specific topic areas





# Analytics Advisors

## NCREIF Analytics Tool



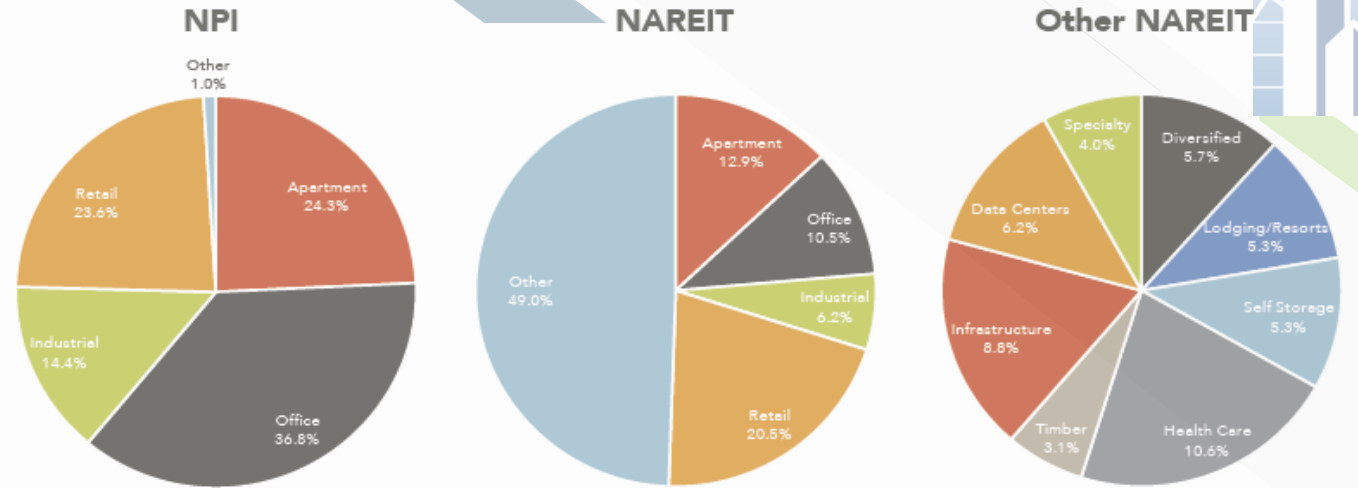
Proposal Point	Performance Analytics	Operations Analytics	Valuation Analytics
<b>Combine Reports</b>	<ul style="list-style-type: none"> <li>(1) Index Performance Report</li> <li>(2) Market Performance</li> <li>(3) Interactive Performance Report</li> </ul>	<ul style="list-style-type: none"> <li>(1) Market Operations</li> <li>(2) Market Revenue and Expense Report</li> </ul>	<ul style="list-style-type: none"> <li>(4) Market Operations Report</li> <li>(6) Interactive Operations Report</li> </ul>
<b>Reduced Chart List</b>	<ul style="list-style-type: none"> <li>1. Summary Statistics Table</li> <li>2. Line/Candle Chart – Returns</li> <li>3. Momentum</li> <li>4. Risk vs. Return Chart (SML?)</li> </ul>	<ul style="list-style-type: none"> <li>1. Summary Statistics Table</li> <li>2. Line/Candle Chart</li> <li>3. Momentum – Growth Rate</li> </ul>	<ul style="list-style-type: none"> <li>1. Summary Statistics Table</li> <li>2. Line/Candle Chart</li> <li>3. Momentum – Measure Changes</li> </ul>
<b>Data Points</b>	<p>Return Components, Market Value, Number of Properties</p> <p>Different NPI Databases and NFI-ODCE Data, Benchmarks as shown</p>	<p>Cash Flow Components, Square feet, and units</p> <p>Growth Rate of components</p> <p>Same-store ability</p> <p>Vintage<sup>1</sup> and Quality Attributes<sup>1</sup></p>	<p>Appraisal Benchmark Data<sup>1</sup>, NCREIF Cap Rates, Transaction Volume</p>

<sup>1</sup>Indicates wish-list item

# NPI+ Initiative

## Overview

- Background: Niche Sectors are playing a larger role within real estate. NCREIF is playing catch-up. Largely represented CORE players with minimal niche exposure. Now courting Non-Core players and even CORE players are dipping their toes.



Source: NCREIF, REIT.com

## Questions Outstanding:

- Should NPI be separated from NPI+ to isolate niche sectors only?
- Should there be a rebranding of NPI+ OR simply a additional index just for Niche sectors?
  - Balance b/t simplifying NCREIF product shelf and making combinations of data more accessible.
- Naming Convention of this index?
  - NCREIF Emerging Sectors Index
  - NCREIF Alternative Sector Index
  - Other Ideas?

