

TOTAL GLOBAL EXPENSE RATIO FEE AND COST TRANSPARENCY ADDING LIGHT TO THE OPAQUE

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What are the fees and costs associated with participation in a fund? How does fund A compare to fund B? The diversity of investment mandates (sector, geography, structure, etc.) coupled with various types of fees and costs associated with fund participation make it difficult to determine total cost load related to a particular fund much less compare costs across funds. The topic of fund fee and cost transparency is garnering substantial attention from State legislatures, country regulators, investor management boards and investment manager organizations both domestically and around the world who want more information to ensure consistency, comparability and transparency on fee and cost load within the private equity industry, including real estate.

The growing need for increased transparency led to the creation of the global fee and expense standards initiative - an industry-wide collaboration jointly sponsored by the NCREIF, PREA, INREV and ANREV. After nearly two years of ongoing collaboration, the Total Global Expense Ratio (TGER) is ready for publication and available for public comment through June 14, 2018.

As a global metric, the objective is for all investors and investment managers to share a consistent methodology for the measurement of fees and costs, terminology, and disclosure requirements associated with the nature of a particular fee or cost. The basic calculation for the ratio is straightforward: fees, plus costs divided by gross asset value. The calculation further expands to fees, plus costs, plus taxes divided by gross asset value to account for varying tax structures.

For TGER, all costs are assessed based on the type of service to which they should be attributed, no matter where that expense sits in the investment structure. As a simplified example, consider audit costs relating to the annual audit of the fund. In some cases, these costs are allocated to each investment by the investment manager; in other cases, a manager may not allocate these costs to the investment but hold them at the fund level. TGER looks at the nature of the cost rather than where the cost is recorded in the accounts and captures the costs of the annual audit in relation to the fund, accordingly.

Additionally, fees charged by the investment manager must be transparent and include any relevant adjustments such as reductions, waivers and transaction offsets, that might have been agreed between manager and investor.

To meet the all-important objective of comparability, a critical part of developing TGER was establishing a shared set of terms and definitions. Commonality of meaning around key concepts such as asset management fees, performance fees, carried interest, transaction-based management fees, professional services costs, vehicle administration costs and many others, was vital. All of these terms are defined in the Global Definitions Database, a cornerstone project of the collaboration efforts.

All comments received on TGER from the consultation period will be carefully considered. It is anticipated that there will be broad consensus and support for the ratio and its transparency principles. If so, TGER will likely be embedded within the INREV Guidelines and the NCREIF PREA Reporting Standards by the start of 2019.