

UK Investment Performance Committee (UKIPC)
Response to
GIPS Exposure Draft Guidance Statement on Real Estate

1 About the UKIPC

The UK Investment Performance Committee (UKIPC) is the UK national sponsor for the Global Investment Performance Standards (GIPS). It brings together representatives of asset owners, advisors, managers, verifiers, measurers, analysts and other parties with an interest in the continuing development and promotion of transparent, consistent and ethical investment measurement performance standards.

We are grateful to the CFA Institute and the volunteers on the various GIPS committees, subcommittees and working groups for their work in updating the GIPS Guidance Statements in line with the 2010 version of the GIPS. We welcome the opportunity to comment on the Exposure Draft Guidance Statement on Real Estate.

2 Response

2.1 Investment Discretion

The phrase 'where possible' towards the end of the second paragraph of this section (top of page 2: 'the portfolio should, where possible, be considered discretionary') is confusing and, we believe, unnecessary. We suggest that it be removed.

2.2 Fees and Expenses

2.2.1 We find the final paragraph of the section on Fees and Expenses confusing (top of page 4).

2.2.2 What are 'investment level administrative costs'? We would interpret these as being the administrative costs of running the fund, and find it difficult to see why these should not be deducted from both gross or net of fees returns. Alternatively, or in addition, they could be the consequential costs of maintaining corporate structures for holding assets, and again the same comment would apply.

2.2.3 The third sentence of the paragraph, requiring disclosure of any fees in addition to the transaction expenses which are deducted from gross of fees returns, is also puzzling. Is this intended to relate to other fees which are paid

to the manager or to all costs, including 'investment level administrative costs' which, it is acknowledged, it is common practice to deduct? It would indeed be both prudent and helpful for managers to detail the costs but also to deduct them in all circumstances.

2.2.4 Again, with respect to net of fees returns, is the requirement for disclosure in relation to fees payable to the manager or to other fees as well?

2.3 Inclusion of New Portfolios in Composites

We presume that 'on timely and consistent basis' (first sentence of paragraph) means on the portfolio's inception date. Whilst we acknowledge that this is indeed clear and consistent, we would reiterate what we said in our response to the consultation on the revised GIPS, this is not necessarily appropriate for an illiquid asset such as real estate. For an entirely new portfolio this is fine, but for a takeover from another manager it is almost inevitable that an existing portfolio will contain legacy issues which it is not possible for a new manager to deal with it immediately. Their performance record will therefore be tainted for reasons beyond their control.

2.4 Determining the Non-GIPS-Compliant Performance Period for Real Estate Closed-End Fund Composites

We fear that the requirement that a manager cannot be considered compliant without a fully compliant five year history is likely to diminish the participation of managers substantially. The following are a few comments based upon our interpretation of the implications of this requirement:

- Closed ended funds must have both an SI-IRR and quarterly time weighted returns. Not all closed ended funds are opportunity funds – they might be core – and an SI-IRR is not necessarily relevant.
- Conversely, opportunity funds commonly do not or have not had quarterly valuations and time weighted returns are unlikely to be relevant to them.
- Aside from the fact that a manager might resolve to take the necessary steps to comply now, despite the lack of relevance, it would not be possible for them to infill five years of back data and therefore not only would the relevant fund not be capable of complying, the entire firm's track record would be noncompliant for at least another five years.

- In these circumstances, in fact, even for a core closed ended fund, if you could not create a compliant SI-IRR, this would prohibit the whole firm from ever complying.

2.5 Effective Date

We understand the problems of designing any 'one-size-fits-all' solution but perhaps a transitional period of 12 months would be reasonable in most circumstances.

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