

NATIONAL COUNCIL OF REAL ESTATE INVESTMENT FIDUCIARIES
Performance Measurement Committee Minutes
June 5 & 6, 2002

Opening Remarks

Ken Greguski, Chair, Performance Measurement Committee (PMC), called the meeting to order on Wednesday afternoon at 3:00 p.m. and welcomed attendees.

Ken distributed the attendance roster from the February 2002 conference and the list of PMC members who qualified to vote at this meeting. Ken explained that PMC members qualify to vote if they (1) were present at 2 of the last 3 PMC meetings and (2) actively participate on a subcommittee. All PMC attendees are encouraged to participate in the committee discussions and raise issues that are important to their firm. Ongoing attendance and participation will ensure a vote. However, only one vote will be allowed per firm. The NCREIF Board continues to approve this PMC voting structure.

Real Estate Information Standards (“REIS”) Redraft – Scott Brown and Ken reported that a consultant had been hired to combine NCREIF Committee chapters. The Standards will be distributed to NAREIM, PREA and NCREIF members on June 10th. The comment period will end September 1st. Board approval is expected in October. Ken explained that the Performance Measurement Chapter addresses investment level performance and not property level performance.

Ken provided an update regarding the NCREIF initiatives:

- Database Expansion – The data contributor manual was distributed. Data has been expanded to include NOI fields and additional property types. All contributors were able to comply with the shorter time period of the 20th of the month. The majority of members voted for freezing the index. Other long-range member expansion efforts include taxable accounts, certain REITS, insurance company separate accounts and other general accounts.
- Fund Level Database – NCREIF received a number of proposals from investment consultants in response to an RFP for the development of a Fund level database. NCREIF will utilize this database to establish a Fund Level Index. Proposing entities included: Russell, State Street, Cortland, IPC. These firms will be making oral presentations to the Board on June 17th.
- Open End Fund Index - The Open End Fund Property Index continues to move forward and is expected to replace the former NCREIF 1000. Jeff Fisher is collecting

data from open-end funds. Valuation and leasing information is expected to be available by 2003 and will be used for research purposes.

- NCREIF Membership – A drive to increase membership and include REIT's and insurance companies is underway.
- Nuts & Bolts of Institutional Real Estate Conference – The Performance Measurement Committee is being asked to design an advanced 6-hour program that will be part of a two-day program. A Subcommittee will be assembled and develop the content for the course.

AIMR/GIPS – Matt Ward and Laura Survant presented an overview and update of the Association for Investment Management and Research Performance Presentation Standards (“AIMR PPS®”), the AICPA's new verification standards and the current status of the Real Estate Provisions of the Global Investment Performance Standards (“GIPS”).

Matt reported the changes resulting from the AIMR-PPS redraft that became effective in December 2001. Matt also presented the new verification standards that significantly change the reports that are rendered by verifiers of a firm's investment performance.

Laura reported that the comment period for the Real Estate Standards had ended and the Real Estate Subcommittee of the Investment Performance Council was in the process of considering the comments received prior to releasing the final real estate provisions. Comments addressed the frequency required for an independent appraisal and the requirement for component returns, among other things.

Alternative Investments– Stephanie Brower reported that the increase in opportunistic investing in the industry is demanding more consistent performance presentations. She reported that the Alternative Investment Subcommittee had met several times via conference calls to work on developing reporting best practices of opportunistic funds and is working on a presentation for the October Annual Conference. Stephanie shared the Subcommittee's mission statement to “Identify and quantify reporting issues surrounding Opportunistic Funds. Once identified, determine the best reporting practices on how to deal with the issues and make recommendations from Committee findings to NCREIF and suggest findings be incorporated into REIS. In addition, invite speakers to come and share their knowledge at NCREIF conferences.” Stephanie also distributed PCA's “Reporting Best Practices for Opportunity Funds.”

Debate remains over whether a time-weighted return or IRR is more appropriate. Stephanie posed several questions to the group regarding how to define alternative investments, which include: debt, development, opportunistic investments. She also asked the group to consider how to apply REIS to alternative investments and what to measure.

Several other issues arose regarding the lack of consistency in handling the following in performance returns: entity level debt, down-stream debt, promote fees (when the general partner participates in earnings with fees tied to transactions), incentive fees, and leverage.

Education – Joe D’Alessandro reported that NCREIF will host an education program in the Fall, at DePaul University. The two-day program will focus on more technically advanced topics compared to *NCREIF’s Nuts and Bolts of Institutional Real Estate* program. Each committee is being asked to develop topics or modules that will be taught during the program. Joe will chair the PMC’s Subcommittee to work on the module. Joe reported that the performance measurement topics will likely include: (1) risk return measures, (2) leveraged vs. delevered returns, time-weighted vs. dollar weighted returns, and (3) attribution analysis. The classes are expected to integrate more advanced use of Excel.

Workbook – Joe D’Alessandro reported that a separate update supplement of the workbook titled “The How to Guide to REIS – Performance Measurement and Reporting Information Standards” would be created and sold by NCREIF. Materials would be converted from the Nuts and Bolts course materials. Materials need to be developed for the following topics: risk measures, benchmarking, compositing, leverage, before and after fee returns, incentive fees and partnership returns.

CEO Visit - Ken Greguski shared with the CEO’s the Performance Measurement Committee’s agenda. Ken discussed redraft efforts of the performance returns workbook, the accumulation of best practices in investment performance reporting of alternative investment products, efforts to expand the benchmark and database, the development of an education program, changes to AIMR/GIPS performance presentation standards and the recent redraft of the Real Estate Information Standards (“REIS”). The CEO’s discussed their perspectives on the importance of meaningful performance measurement standards to support the credibility of the real estate asset class and presenting a meaningful index for the real estate asset class.

Subcommittee Breakouts - Alternative Investments, Performance Workbook and Education Subcommittees met to complete their assignments.

- Alternative Investment Performance Committee – is addressing the issues it compiled relative to opportunity funds and other alternative real estate investments. A committee presentation is scheduled for the October Annual conference.
- NCREIF Performance Returns Workbook Committee is making efforts to revise/update the Performance Returns Workbook.
- Education Committee - is developing a curriculum for the performance measurement program of the fall 2002 *NCREIF Nuts and Bolts of Institutional Real Estate*.

Ken adjourned the meeting at 4:30 p.m. on Thursday.