



Webinar - Guidance on Expense Ratios

Virtual seminar

Wednesday 8th June 2022



Moderator Welcome

Jacqui Bungay, Policy Secretariat at AREF
for the AREF Public Policy Committee



Agenda for today

- 09.00 Webinar start
- 09.00 Welcome, housekeeping and background - Jacqui Bungay
- 09.10 Presentation - Constantin Sorlescu, INREV presenting on the TGER
- 09.20 Presentation - John Forbes, John Forbes Consulting and member of the AREF Public Policy Committee
- 09.30 Q&A with members
- 09.55 Closing remarks from Jacqui Bungay
- 10.00 Close

Speakers



John Forbes

Independent Consultant

John Forbes Consulting



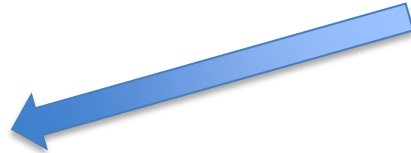
Constantin Sorlescu

**Director of Professional
Standards**

INREV

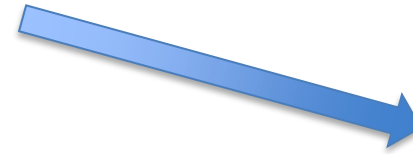
AREF CTI & Expense Ratio Working Group

Set up to focus on two things



The Cost Transparency Initiative (CTI)

- CTI was launched in November 2018 supported by the Pensions and Lifetime Savings Association (PLSA), the Local Government Pension Scheme Advisory Board and the Investment Association (IA) is a new industry standard for institutional investment cost data.
- AREF works with the CTI to enable cost data for real estate funds to be recorded in a consistent and clear way on the templates.



Total Expense Ratio Guidance

- Review AREF Total Expense Ratio (TER) Guidance which had not been updated since 2009.
- Key conclusion – align with the rest of the world in adopting the TGER.



Constantin Sorlescu

Director of Professional Standards
INREV

GUIDANCE ON EXPENSE RATIOS

TOTAL GLOBAL EXPENSE RATIO (TGER)



AREF Webinar

8 Jun 2022

Constantin Sorlescu

Director of Professional Standards

Agenda

- Benefits of TGER as a global fee and expense metric
- How to calculate TGER
- Categorisation, allocation and disclosures

Who benefits from standardised fee & expense metrics?



Investors

Clarity in communication with respect to anticipated cost leakage for new funds and actual cost leakage for existing funds



Managers

Internal comparison of costs across funds as part of cost optimisation discussions



Industry

Use of consistent calculation allows for consistency in comparison across peers and (global) market insights

Total Global Expense Ratio

- TGER measures fees and costs of managing a vehicle, regardless of domicile, structure and management activities
- TGER represents a natural progression from the Total Expense Ratio (TER)

Aim 1

Establish Comparability

Comparisons with other real estate vehicles...

Comparisons with other asset classes...

Comparisons with budget/expected expense leakage...

Aim 2

Improve transparency

Terminology – Fees vs. costs

FEES describe manager charges

COSTS describe third party charges

Both fees and costs should include charges levied directly by investment managers to investors in relation to services rendered to the vehicle

Calculation

Required ratio:

$$\text{TGER} = \frac{\text{Vehicle fees + Vehicle costs}}{\text{Time weighted Average Gross Asset Value}}$$

Recommended ratio:

$$\text{NAV TGER} = \frac{\text{Vehicle fees + Vehicle costs}}{\text{Time weighted Average Net Asset Value}}$$

OPTIONAL:

- **A forward-looking TGER**, for the first year when the vehicle is expected to be stabilised
- **After-tax TGER**, to reflect the cost associated with tax structures and taxable income

Main Components

| | | |
|-------------------------|--|--|
| 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 |

*Standard TGER does not include vehicle taxes. However, if considered meaningful, TGER after tax is an optional disclosure.



John Forbes

Independent Consultant
John Forbes Consulting

Our approach

- Key conclusion – align with the rest of the world in adopting the TGER
- Changes are mostly cosmetic and terminological
- Some things not exactly what we would have done, but not significant enough to break ranks with everyone else
- Some extra work for managers reporting, but not considered material
- For managers reporting TER quarterly, 30th June will be the first quarter to report under the new TGER.

Changes from previous TER guidance

The most significant changes are set out below:

| | AREF TER Guidance 2009 | Total Global Expense Ratio | AREF Expense Ratio Guidance 2021 |
|--|---|---|--|
| Reporting as a proportion of NAV or GAV. | <p>The expense ratios should be reported as a proportion of Net Asset Value (NAV).</p> <p>Expense ratios may additionally be reported as a proportion of Gross Asset Value (GAV).</p> | <p>The expense ratios should be reported as a proportion of Gross Asset Value (GAV).</p> <p>Expense ratios may additionally be reported as a proportion of Net Asset Value (NAV).</p> | <p>To ensure consistency with both existing AREF practice and TGER, expense ratios should be reported as a proportion of both NAV and GAV.</p> |
| Type of NAV and GAV | NAV and GAV should be accounting NAV and GAV | NAV and GAV should be the relevant reporting NAV and GAV of the fund. | NAV and GAV should be the relevant reporting NAV and GAV of the fund. |
| Performance Fees | Performance fees should be excluded from TER and should be reported separately. | Performance fees should be included in TER. | To ensure consistency with both existing AREF practice and TGER, TGER should be reported including and excluding performance fees. |
| Real Estate Expense Ratio (REER) | Uses the term Property Expense Ratio (PER) to describe the property level costs and Real Estate Expense Ratio (REER) to describe the total of TER and PER. | Uses the term Real Estate Expense Ratio (REER) to describe the property level costs. | Uses the term Real Estate Expense Ratio (REER) to describe the property level costs. |
| Transaction costs | <p>Transaction fees paid to the manager are included in TER.</p> <p>Disclose transaction costs separately.</p> | Transaction fees paid to the manager are included in TGER. | <p>Transaction fees paid to the manager are included in TGER.</p> <p>Disclose transaction costs separately - Typically costs associated with the purchase and sale of property holdings, but may also include costs associated with the purchase and sale of interests in special purpose vehicles or other investments.</p> |

New disclosure

Example

| | As a percentage of GAV | As a percentage of NAV | |
|---|------------------------|------------------------|-----------------|
| Fund management fees | X | X | |
| Other fund level operating costs | X | X | |
| TGER before performance fees | X | X | To be disclosed |
| Performance fees ¹ | X | X | To be disclosed |
| TGER after performance fees (A) | X | X | To be disclosed |
| Property management fees | X | X | |
| Other property level costs | X | X | |
| REER (B) | X | X | To be disclosed |
| Total (A + B) | X | X | To be disclosed |
| Costs associated with the purchase and sale of property holdings ² | X | X | |
| Costs associated with the purchase and sale of interests in special purpose vehicles. | X | X | |
| Transaction costs | X | X | To be disclosed |

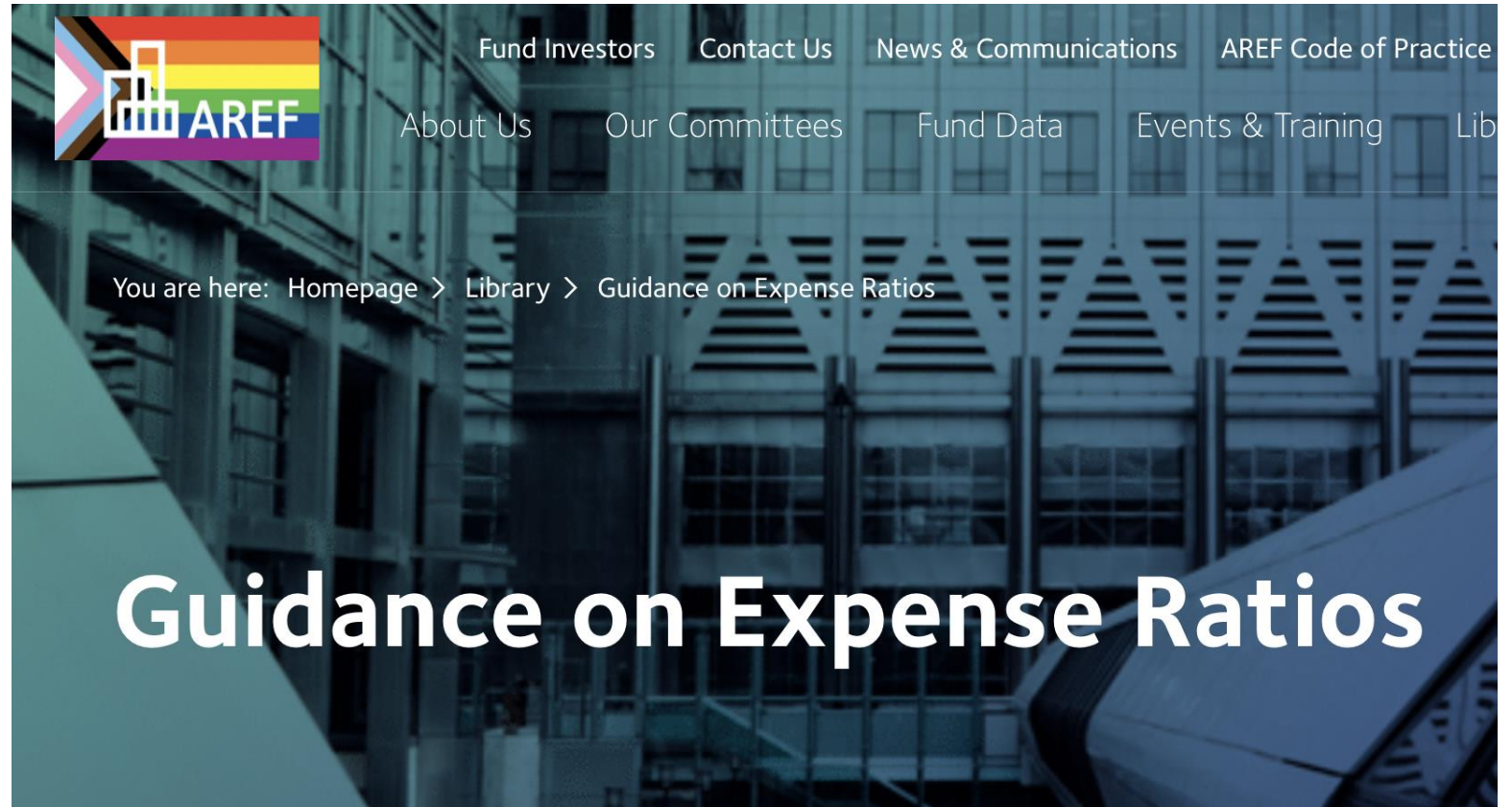
¹ Where a fund does not have performance fees, this should be "N/A". Where a fund does have performance fees but none have accrued, this should be "0"

² Transaction fees paid to the manager are included in TGER.

For more information

Website page includes:

- International TGER guidance
- AREF guidance
- Q&A



<https://www.eref.org.uk/resource/guidance-on-expense-ratios.html>



Q&A

To ask a question to the speakers:

Click the Q&A button at the bottom of your screen to bring up the Q&A board or raise your hand to ask a question in live time.



Thank you