

Debt Valuation Task Force

Results of the Survey of Plan Sponsors
and Investment Managers

There is more work to be done....

- Although the survey results supported the Task Force conclusion to request the REIS Board to initiate a modification to the current REIS Standard to a structure based decision...
 - Survey participants are not ready to change the current REIS Standard prior to addressing guidance and related disclosures in more depth.
 - Therefore, the REIS Council has formed a task force to make industry guidance available during the second quarter of 2009.

Task Force conclusion:

Modify current REIS Standard to a structure based decision.

- The REIS Board should consider *modifying* the current REIS Standard requirement (which is currently to report all debt at fair value) to a structure based decision.
 - **Open-end funds:** Require valuation within the Net Asset Value (NAV); adoption of SFAS159; and enhanced disclosures showing the dollar impact on NAV
 - **Closed-end funds:** Recommend valuation within the NAV with required enhanced disclosures
 - **Separate accounts:** Recommend valuation within the NAV with required enhanced disclosures
 - Enhanced disclosure requirements should be subject to any necessary audits and not considered “supplemental” to the audited financial statements.
- Collective reasons for the Task Force conclusion:
 - Debt valuation is critical for funds which trade (e.g., open-end funds)
 - Maintaining a requirement for the NAV valuation information maintains its importance
 - The REIS Standards need to be more industry encompassing
 - Enhanced disclosures which show the dollar impact on NAV are perceived to be a more palatable solution for Investment Managers who are required to disclose valuation information under FAS 107 but may not necessarily be disclosing comprehensive valuation information which investors may require.

Other survey data also supported this conclusion

- When asked if the REIS standard was a factor in the decision to value debt:
 - 40-50% of the Investment Managers said “No” – this percentage increased for closed-end and separate account vehicles
 - A majority of plan sponsors agreed with the current REIS standard, but an overwhelming 90% did not require REIS compliance

- Of the Investment Manager survey participants:
 - 100% of the open-ended funds valued debt
 - Approximately 50% of the closed-end funds and separate accounts valued debt

Final Survey – Participants are not ready to change the current REIS Standard without guidance.

- Council requested a short on-line survey of same participants:
 - Reaction to the overall conclusion - Whether to initiate the process to change the REIS Standard (i.e., exposure draft) prior to the delivery of disclosure guidance and interpretive guidance with respect to the application of SFAS 157 and 159
 - 13 Plan Sponsors and Investment Managers responded to the survey
 - The survey indicated that many (85%) of the participants were in favor of the proposed language
 - Yet, it also indicated that they were not necessarily ready to make a change prior to addressing the guidelines and disclosures in more depth (50/50 response)
 - Results did suggest that both Plan Sponsors and Investment Managers are willing to reconsider REIS compliance, for their non-compliant funds, given a change in the current standard

Next steps and industry issues to consider

■ Next steps

- Develop interviewee requested **GUIDANCE** for debt valuation: targeted completion is Quarter 2, 2009 – *Debt Valuation Guidance Task Force*
- Develop illustrative disclosure requirements – *Debt Valuation Guidance Task Force*
- Provide education to industry participants – *Education Task Force*
- Complete REIS compliance checklist initiative – *Compliance Checklist Task Force*

■ Address other Industry issues to consider

- Research notion of NAV volatility when debt is valued – fact or myth
- Increase REIS awareness among industry participants through publications, industry seminars and conferences and other marketing opportunities

Plan Sponsor, Investment Manager and Task Force Participants

Plan Sponsor Interviewees

24 Firms - approximately \$150 billion* in U.S. Real Estate Private Equity Investments

Alaska Electrical Pension Fund
Alaska Permanent Fund
Alaska Retirement Management Board
Alcatel-Lucent Investment Management Group
APG
Brown University Investment Office
CalPERS
CalSTRS
Colorado Public Employees Retirement Account
Florida State Board of Administration
General Motors Asset Management
Iowa PERS

LACERA
MassPRIM
New York State and Local Retirement System
NYSTRS
Ohio PERS
Ohio SERS
STRS Ohio
State of Michigan Retirement System
Texas Teachers Retirement System
TIAA-CREF
University of California, Office of the Regents
Virginia Retirement System

IM Interviewees

32 Firms; \$239 billion (NAV) in U.S. Real Estate Private Equity Investments

AEW	Henderson Global Investors, NA
AMB Capital Partners	ING
American Realty Advisors	Invesco
BlackRock	JER
Blackstone	JP Morgan
The Campbell Group, LLC	Kennedy Associates
CB Richard Ellis Investors	Kimco
Citigroup	LaSalle Investment Management
Colony Capital	Lowe Enterprises
Cornerstone	Morgan Stanley
Edens and Avant	Principal
Forest Investments	Prudential
Goldman Sachs (Whitehall Funds)	RREEF
Guggenheim	Sentinel
Hart Realty Advisers	UBS
Heitman	Urdang

Advisory Group Participants

Chair

Doug Poutasse, Executive Director, *NCREIF* and Chair, *REIS Board*

Jeff Kiley	Partner	<i>PricewaterhouseCoopers</i>
Tom Mulvin	Investment Officer	<i>Virginia Retirement System</i>
Joe Pagliari*	Clinical Professor of Real Estate	<i>University of Chicago Graduate School of Business</i>
Kevin Scherer	Managing Director	<i>BlackRock</i>
Lynn Thurber*	Chairman	<i>LaSalle Investment Management</i>

*REIS Board Member

Task Force Participants

Chair

Jim Strezewski, Senior Vice President, *LaSalle Investment Management*

Co-Chair

Monica Parikh, Director of Research, *Metzler, North America*

REIS Administrator

Marybeth Kronenwetter, President, *Real Estate Investment Advisors*

Lindsey Adams	Vice President, Portfolio Manager	<i>AMB Capital Partners, LLC</i>
Sara Geiger	Portfolio Manager, Real Estate	<i>Florida State Board of Administration</i>
Ken Greguski*	Director, Global Head of Performance/Client Reporting	<i>RREEF Alternative Investments</i>
Denisa Hall,	Vice President	<i>Prudential Real Estate Investors</i>
Barbara McDowell*	Director, Portfolio Analytics	<i>ORG Portfolio Management</i>
Michael Morrell	Assistant Manager of Real Estate/Asset Management	<i>NYSTRS</i>
Brian Rueben	Partner	<i>Deloitte</i>
Ashley Strange	Private Markets	<i>TRS of Texas</i>
Connie Tirondola	Director, Portfolio Accounting	<i>BlackRock</i>
Candice Todd*	Executive Director	<i>Morgan Stanley Real Estate</i>
Serena Wolfe	Senior Manager	<i>Ernst & Young</i>

* REIS Council Member