INREV RESEARCH & MARKET INFORMATION

REVIEW OF REPORTING BEST PRACTICE 2014

INREV

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INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate funds for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

FOREWORD

Welcome to the annual Review of Reporting Best Practice, the first since the launch of the revised INREV Guidelines. This year has been very much one of change, with the Guidelines substantially redesigned in terms of both content and user interface. The long anticipated revised Guidelines were issued in April 2014, after the completion of 2013 investor reports, on which this survey was based. Consequently this had an impact on the results of this year's study, but it also offers fund managers and INREV a great opportunity to get insight into which steps need to be taken to comply with the revised Guidelines. It also provides useful feedback allowing us to continue to refine the Guidelines, and attribute tailored reporting guidance for different fund types, and add illustrative material to our online Guidelines.

The review was carried out by PwC Luxembourg between September and October 2014. In this study, investor reports of 39 non-listed real estate funds were reviewed and compared to the detailed reporting requirements of the revised INREV Guidelines. In addition, several interviews were held to ensure the accuracy of the received data and to seek manager's perspectives on where reporting practices should be headed.

This report aims to provide fund managers and investors with detailed insights into the trends in reporting practices in Europe and to enable benchmarking of current reporting practices across different fund strategies and structures. PwC also reviewed reporting practice in Asia. This allows us to compare reporting practices across regions, which will be published in a separate article in the IQ magazine.

Throughout the publication, the views of interviewees and/or survey respondents are presented as direct quotations, on a confidential basis.

On behalf of INREV, I would like to extend our sincere thanks to all who shared their valuable time and expertise during this project. We trust that all participants received useful feedback from the exercise which will assist them with the adoption of the revised INREV Guidelines and with that further professionalism and reporting best practice in the non-listed real estate industry.

Matthias Thomas
CEO, INREV

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EXECUTIVE SUMMARY

The objective of this review is to provide an update on current market practices in investor reporting within the non-listed real estate fund industry in Europe. In addition it gives insight to what extent reporting complies with the revised INREV Guidelines (the "Guidelines") and where adjustments need to be made to comply to the revised Guidelines.

The sample

Information was received for 67 funds from 33 fund managers. The number of fund managers responding decreased compared with the 2012 study (123 funds from 66 funds managers). The survey period was much shorter this year (September – October 2014), which partly explains the lower participation. Due to the revision process of the INREV Guidelines no review took place in 2013.

The documents received from fund managers included both annual and quarterly reports and a self-assessment checklist assessing compliance with the reporting guidelines.

Of the 67 funds for which we received information, 39 were included in the review, since no more than two reports from the same fund manager can be used to obtain a sample representative of the whole fund manager universe.

Many of the 2013 reports included in the study, had already been finalised by the time the revised INREV Guidelines were released in April 2014.

Overall compliance remains stable

Interestingly this review shows that despite the revision, the overall compliance level with the INREV Guidelines has remained stable at 75%. The number of funds that comply with over 75% of the INREV reporting guidelines slightly increased to 54%, compared to 46% in the 2012 study, which reviewed 2011 investor reports.

Looking in more detail at the Guidelines we see that some sections were less compliant due to the new requirements of the revised Guidelines. However, most of the fund managers agreed that the required new disclosures were relevant and useful to investors and they will most probably amend their future investors' reports accordingly.

Compliance with financial requirements remains high

The financial quantitative requirements of the reporting guidelines are usually well-complied with, while the qualitative requirements are less followed. We also noted a correlation between the higher overall level of compliance and the adoption of recent IFRS standards (namely IFRS 7 and 13) that require more qualitative and quantitative disclosure on financial risk managements as well as fair value estimations.

Regarding the valuation process, 49% of the funds disclosed sufficient information to comply with at least 75% of the Guidelines requirements, compared to 29% in the 2012 survey. This increase can be attributed to the adoption of IFRS 13, which came into force in 2013 and which requires extensive disclosures on the portfolio valuation methods, inputs and sensitivity to the main parameters of its valuation.

An area which needs improvement remains the use of the Total Expense Ratio (TER) and Real Estate Expense Ratio (REER) Metrics which is quite low (TER: 40% – REER: 24%). The TER ratio is sometimes seen as more relevant for some fund strategies (core funds) than for others (opportunistic) and therefore the use of this measure is not widely spread.

The potential effect of the adoption of "Investment Entity" definition under IFRS 10 may have an impact on the use of INREV NAV by funds in Europe, as it principally relates to funds using consolidation. Feedback from fund managers also indicates that clearer guidance from INREV is needed to encourage wider adoption in the market.

Three trends in reporting

Interviews were conducted with several of the participating fund managers. From these interviews some common themes arose and offer some interesting perspectives into trends in reporting practices in Europe:

- Fund managers are putting more importance and effort in environmental, social, and governance (ESG) and sustainability is primarily driven by investor's awareness of mega-trends such as climate changes, CO^2 emissions, and mass urbanisation but also of the risks associated to these changes.

- Investors are increasing their demands from fund managers to provide reporting that is quicker, more concise, and broader in scope. Within investor organisations are different users of reporting each with their specific needs.

- Investor requests for bespoke reporting continues to soak up significant time and resources, which fund managers sometimes feel distract from their core responsibilities for research and management of underlying assets. Standardisation in the transfer of reporting data "sounds very good in theory, but is difficult to achieve in practice".

1 PERSPECTIVES ON THE EVOLUTION AND TRENDS IN REPORTING PRACTICES IN EUROPE

The review concentrated on the use of and compliance with the revised INREV reporting guidelines, but there were several other topical themes which arose from the accompanying interviews. These themes as a whole portray an ongoing evolution of the investor reporting cycle in Europe. It reflects a broader shift in investor needs and expectations, as the industry increasingly becomes more mobile and seeks information in real time.

This chapter first describes some of these themes, before looking at the actual compliance with the reporting guidelines in chapter 2.

The themes described below, can also be seen in Asia, since most of the participating fund managers are active in Europe and in Asia and deploy their reporting practices across both regions.

Work in progress to comply with the revised INREV Guidelines

The revised Guidelines were published in April 2014, including the reporting guidelines which aim to better reflect the structure and the content of investor reports. The degree of relevance of the Guidelines depends on the fund strategy, whether it is a core or opportunity fund or whether it owns controlling or non-controlling stakes in the underlying investments.

The respondents show a mitigated point of view on additional work when implementing the revised Guidelines as this requires a significant amount of work. It also raises some question for example the effect of subsidiaries with negative equity (non-recourse) in the case of intercompany loan financing.

A core element of the INREV Guidelines remains corporate governance, now with increased focus on providing additional commentary, not only on various performance indicators but also on market factors such as regulatory developments. These changes reflect the increased sophistication of investors, who are looking for more transparency and are keen to get a more accurate understanding of what drives the returns but also the process in which those returns arise.

Another important aspect of the Guidelines is the INREV NAV, viewed as a very useful tool to compare “apples with apples”. However; some fund managers commented that they still do not fully understand the aim of some of the prescribed adjustments.

The revised Guidelines include a significant increase in explanations of adjustments and forward-looking commentary. Whilst most quantitative requirements are met, non-compliance has often been on the qualitative discussions around the numbers, pulling down the compliance levels.

The majority of fund managers hold a view that the Guideline revisions are consistent with market practice and reflect investors’ requests. Fund managers remain keen to maintain a high level of compliance with the Guidelines. Not just because they are requested to do so by investors, but because they see it as a matter of general good governance and transparency. Fund managers continue to receive additional investor requests for specific information. These requests are often handled on an “need by need ” basis and not included in investor-wide reporting. Some of the participating fund managers have indicated that they are looking to include this "ad hoc" information into their standard reports and reporting process.

The Green Movement is visible

Over the course of our interviews we noted that fund managers are putting a lot of importance and effort on sustainable environmental, social, and governance (ESG) aspects. Whether or not investors would be ready to pay a premium for green investments is not confirmed, but the fact that this topic attracts growing interest and investor appetite is certain.

The sustainability angle impacts heavily both the investment pillar of their actions and the reporting pillar.

Along with PwC Asia in the ANREV study, we noted few divergences in views between the perspective of fund managers and investors; in particular, the view of it being necessary to show benefits of "going green" on fund performance was very consistent across the board.

"ESG is integral to our business, and it's something we work to build into all of our projects right from the pre-Investment Committee stage"

but also…

"It's difficult to truly assess the cost-benefit of incorporating ESG into our strategy and projects, no firm data found to prove either way"

Timing is increasingly important

Over the last couple of years, we have seen a market shift in reporting cycles and timelines. The prevailing view among fund managers was that investors were pushing for shorter timelines, whilst maintaining the accuracy of data. This resulted in some fund managers having their quarterly reporting deadline down to 30 days after quarter end compared to 60 – 90 days in the past. Unlike in Asia, the pressure over shorter reporting deadlines remains an important matter for European fund managers.

The modernisation of the traditional information channel is ongoing

Technology has impacted all of our lives, and how we all interact. Investor reporting has certainly not escaped this trend. Consistent with the trends developing in Asia, European fund managers have travelled further down the route of flexible reporting and using dedicated web portals. The increased efficiency of using such a platform, rather than responding to queries on demand allows quarterly investor reporting to be far more detailed, and provide more granular information for those who want it.

Interviewees almost unanimously stated that investor senior management want to have real-time "bite-sized" information on the overall performance and returns, the qualitative development of the funds and the markets they are invested in, to understand the investment assets, future expectations and risks. Mid-office is more focused on the quantitative risk profile of the fund portfolios, and wants to be able to analyse inputs and factors that affect their valuations, by property, sector, geography, etc. One investor stated that they need to be able to incorporate the risks of their real estate portfolio in their diversified portfolio across all asset classes, so that they could for example analyse market and currency exposure across the entire universe of invested assets.

As a response to these seemingly competing requirements, there's an evolution in investor relations and reporting. Many fund managers are streamlining annual and quarterly reports by taking out certain static and underlying information, and focus on 'real-time' updates of key information. Webcasts and calls are used for 'real-time dialogue' with investors to provide them with up-dates on portfolio, performance and market outlooks, but also the story behind the numbers. This information together with detailed valuation reports and corporate governance documents is also available on their portals.

Examples of common changes are (i) static information such as governance committee details, which are omitted from reporting, but are still available on a real time basis if needed, and (ii) management commentary on individual assets on a recorded web-cast. One drawdown to such a spread of information across different formats is finding relevant disclosures when conducting investor reporting surveys.

Standardisation vs. Bespoke reporting to investors

"While we would like to see standardisation of investor requests, so that we can streamline and mechanise the process a bit, we are still at a stage where investors expect to have customised reporting"

An ongoing operational challenge is the amount of resources needed for bespoke investor reporting. Despite steadily improving capital flows, investors still hold the upper hand, and fund manager continue to see a growth in customised information. However, whilst a logistical issue to manage, nobody argues investors' right to information necessary to effectively manage their portfolio.

Some of the fund managers are adopting the INREV Standard Data Delivery Sheet (SDDS), while others are still gauging the possibility to build in a level of standardisation through the SDDS as a base, with customisation for each investor on top of that. The SDDS should enable them to provide investors with more information, in a shorter timeframe (automatic extraction in the SDDS) and in a more exploitable format (excel). At the same time, it has also been indicated by other fund managers that the SDDS is not user-friendly enough.

We further note that not all specific information, for example the Real Estate Expense Ratio (REER) and Total Expense Ratio (TER) metrics is always included in the standard investor reports, but provided on a request basis.

2 COMPLIANCE WITH THE REVISED INREV REPORTING GUIDELINES

As the revised Guidelines were released after most fund managers issued their 2013 (annual or Q4) reports, this year's review can serve as a "dry run" or a marker for the participating fund managers to consider when reviewing, revising and setting up their reporting templates and other investor communications for 2014 and beyond.

This chapter provides the result of the review of investor reporting compliance with the INREV reporting guidelines. It first describes the overall results followed by a detailed look at the different sections of the reporting guidelines, in order of the guidelines.

Overall compliance remains high at 75%

The overall average compliance with the revised reporting guidelines is relatively high at 75% as can be seen in Table 01. This is in line with the results of the 2012 study, indicating that the revision had no impact on the overall compliance with the reporting guidelines.

Disclosures related to capital structure, returns, depiction of the market developments and the main events impacting the funds are the best-complied guidelines. The INREV NAV

Revised INREV Guidelines Adoption and Compliance Framework

The INREV Guidelines are designed for non-listed real estate vehicles for institutional investors. Since non-listed vehicles can differ considerably, INREV provides a modular approach to guide investors and managers in agreeing on an appropriate level of adoption of INREV best practices and in deciding on the level of compliance with INREV requirements for individual modules.

INREV's best practice frameworks developed for the modules of corporate governance, liquidity and valuation, are qualitative in nature and individual vehicles will adopt them in different ways.

In contrast to best practices, INREV's requirements in the modules covering **INREV NAV, reporting, fee and expense metrics** and INREV data delivery, are more technical in nature. These requirements leave no room for different interpretation: the requirements are either followed, or not.

To accommodate the fact that a fund's style, strategy or structure impacts the possibly for a fund to comply with the Guidelines, work has started to tailor the standards set of Guidelines to the specific needs. The on-line filter functionality will allows to select specific vehicle characteristics, after which the INREV Compliance Checklist will be customised to include all the requirements that need to be followed to be in compliance with the guidelines. If all of the requirements for an individual module are fully implemented, the manager can disclose full compliance with the relevant module. If the requirements of a module are not fully met, the manager should disclose that the vehicle does not comply with that module of the INREV Guidelines and state the reasons for non-compliance including any additional information relevant to an investor's understanding.

disclosure requirements and the Fee and Expenses metrics were the least complied with. Details of each section of the reporting guidelines are explained below.

TABLE 01 / LEVEL OF OVERALL COMPLIANCE BY SECTION

SECTIONS OF GUIDELINES	COMPLIANCE
FUND DOCUMENTATION FOR REPORTING FRAMEWORK	79%
CONTENT AND FREQUENCY OF REPORTING	81%
GENERAL VEHICLE INFORMATION, ORGANISATION AN GOVERNANCE	69%
CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS	86%
MANAGERS' REPORT	83%
PROPERTY REPORT	75%
RISK MANAGEMENT	73%
OTHER DISCLOSURE REQUIREMENTS	56%
LEVEL OF OVERALL COMPLIANCE WITH THE GUIDELINES	**75%**

On a cumulated basis, the number of funds that comply with more than 75% of the reporting guidelines equals to 54% (or 21 out of 39 funds). This represents an increase of 8 percentage points compared to the 2012 survey based on 2011 annual reports where 46% complied with more than 75% of the reporting guidelines.

This can partly be explained by a larger percentage of respondents (64% vs. 47% in the 2012 survey) using IFRS reporting standards. With the introduction of IFRS 13, disclosures regarding the portfolio valuation became more detailed under the IFRS framework.

The table shows that compliance with the financial aspects of the reporting guidelines, such as Capital structure and vehicle level returns, is good. Quantitative information has always been a reporting requirement and as such well embedded into the reporting process.

The revised reporting guidelines require significantly more explanation behind the figures than before. Qualitative disclosures, such as General vehicle information, organisation and governance have a relative lower score due to the necessary amendment it takes to include this piece of information in financial reporting. Having said this, the overall level of compliance for both general vehicle information and risk management sections is 69% and 73%, only just below the average. This shows the willingness of fund managers to include more information on these areas in their reporting.

TABLE 02 / CUMULATIVE LEVEL OF COMPLIANCE

LEVEL OF OVERALL COMPLIANCE WITH THE GUIDELINES	COMPLIANCE
ABOVE 50%	97%
ABOVE 75%	54%
ABOVE 80%	46%
ABOVE 85%	33%
ABOVE 90%	15%
ABOVE 95%	5%

Table 02 provides the cumulative compliance with the reporting guidelines. It is interesting to note that almost the entire sample complies with at least 50% of the reporting guidelines (97% of the respondents). More than half of the sample complies with 50% to 75% of the reporting guidelines, while the remaining half even complies with more than 75% of the reporting guidelines.

What also was encouraging to see from our discussions with fund managers, and when compared with the survey of 2012 (46% complied with 75% of the reporting guidelines) that more fund managers considered the revised reporting guidelines as a key framework in structuring their investor reporting. The INREV Guidelines, including the reporting guidelines are viewed as "providing an objective rating tool to benchmark against our peers".

The significant drop in compliance level between 50% and 75% (from 97% of compliance to 54%) is mainly due to the funds using local GAAP for their reporting. As a matter of fact, even if funds are scoring well on the quantitative aspects, they are scoring less on the qualitative requirements which is decreasing their overall level of compliance.

It is also interesting to note that the funds which score above 90% (6 funds) are equally allocated between core and value added, open end and closed end but there are all reporting under IFRS.

TABLE 03 / LEVEL OF COMPLIANCE BY SECTION AND FUND STYLE

	CORE		VALUE ADDED		OPPORTUNITY	
	OPEN END	CLOSED END	OPEN END	CLOSED END	OPEN END	CLOSED END
NUMBER OF FUNDS	17	2	2	3	0	3
FUND DOCUMENTATION FOR REPORTING FRAMEWORK	76%	50%	50%	100%	N/A	100%
CONTENT AND FREQUENCY OF REPORTING	84%	72%	72%	77%	N/A	77%
GENERAL VEHICLE INFORMATION, ORGANISATION AN GOVERNANCE	69%	56%	56%	80%	N/A	80%
CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS	85%	80%	80%	67%	N/A	67%
MANAGERS' REPORT	88%	34%	34%	82%	N/A	82%
PROPERTY REPORT	71%	83%	83%	66%	N/A	66%
RISK MANAGEMENT	71%	37%	37%	52%	N/A	52%
OTHER DISCLOSURE REQUIREMENTS	53%	45%	45%	68%	N/A	68%
OVERALL	**74%**	**59%**	**59%**	**71%**	**N/A**	**71%**

As can be seen in Table 03 compliance levels for closed end funds is significantly higher than for open end funds which could be due to the lower-than-average number of IFRS financial statements for open end funds (47% compared to sample average of 64%).

The INREV Guidelines were initially principally based on core funds and disclosures being most relevant to core funds, by their very nature, value added and opportunity funds did not perform as well as core funds.

The lowest compliance levels regardless of fund style correspond to the "Other disclosure requirements" and in particular to the fee metrics (please refer to the "Other disclosure requirements" section).

TABLE 04 / LEVEL OF COMPLIANCE BY COUNTRY

	SINGLE COUNTRY					MULTI-COUNTRY
	FRANCE	GERMANY	THE NETHERLANDS	UK	OTHER	
OVERALL	74%	72%	91%	76%	67%	73%

Funds investing in the Netherlands have the highest compliance levels, which is a reflection of the maturity of the market in terms of transparency and availability of information to fund managers and investors and to the fact that 100% of respondents investing in the Netherlands prepare their financial statements under IFRS.

Funds investing in smaller markets, Austria and Ireland, have a lower level of compliance but also in France, Germany and the UK. These markets are like the Netherlands in that they are mature and transparent markets but the difference is in their use of reporting standards.

All Dutch respondents prepare their financial statements under IFRS, while French, German and UK respondents often use local GAAP reporting.

Table 05 shows that funds reporting under IFRS usually show a higher level of compliance with the INREV reporting guidelines, in particular for the section "General Vehicle Information, Organisation and Governance" and for the section "Risk Management".

TABLE 05 / LEVEL OF COMPLIANCE BY REPORTING STANDARD

	REPORTING STANDARD	
	LOCAL GAAP	IFRS
NUMBER OF FUNDS	14	25
FUND DOCUMENTATION FOR REPORTING FRAMEWORK	61%	90%
CONTENT AND FREQUENCY OF REPORTING	73%	86%
GENERAL VEHICLE INFORMATION, ORGANISATION AN GOVERNANCE	59%	75%
CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS	76%	91%
MANAGERS' REPORT	71%	90%
PROPERTY REPORT	68%	79%
RISK MANAGEMENT	47%	88%
OTHER DISCLOSURE REQUIREMENTS	38%	66%
OVERALL	**63%**	**82%**

Indeed, it is worth to note that the IFRS 7 standard requires qualitative disclosures on the main financial risks but also quantitative description of the risk management process in place at the Fund's organisation level.

In addition, the new IFRS 13 standard, requires more disclosure on the fair values of assets and liabilities, including the methods used, main inputs and a sensitivity analysis that allows investors to appreciate the granularity of the valuations. In this respect, the information related to the INREV NAV adjustments on how those adjustments were calculated are usually easier to report by fund managers using IFRS.

Reasons for non-compliance

Fund managers were asked to provide reasons in case of non-compliance. These can broadly be categorised into the following themes:

- Compliance was difficult as the requirements were unclear or required information was not available or difficult to obtain, making compliance "impossible" in the fund managers' view;
- Required disclosures were felt to be not relevant to investors' focus;
- Non-compliancy with requirements which fund managers actually considered to be relevant disclosures and therefore consider to incorporate these in future reporting.

In addition, one of the main reasons for non-compliance with the revised INREV Guidelines in this year's survey is due to the fact that the Guidelines were published in April 2014, after several investors' reports had already been issued. From discussions with fund managers, we understand that the changes related to the revised INREV Guidelines are already in the process of being implemented into the reporting process.

To gain further understanding of these areas of non-compliance, and to provide insights as to the potential implication on reporting best practices, the results for each section of the revised INREV Guidelines are further explored below:

FUND DOCUMENTATION FOR REPORTING FRAMEWORK

PURPOSE: This section of the reporting guidelines, which includes only two guidelines, set out the high-level basis for a fund's reporting framework, and defines key terms included within the reports.

OVERALL COMPLIANCE LEVEL: 79%

INSIGHTS: This section was generally well complied to by most fund managers, some discrepancies can be seen among the respondents regarding the interpretation of the guidelines FD 19 ('*The basis, frequency and timing of delivery of the audited and non-audited financial statements, and management reporting for investors should be defined in the fund documentation*') and FD 20 ('*For annual reports, define any terms or KPIs not already included in Definitions*'). Specifically they were wondering if the disclosures should be made in the fund's constitution documents or yearly in the annual report.

Indeed, information on the basis, the frequency and timing of the preparation of the annual reports is considered as "static" information by investors, usually disclosed in the funds' constitutional documents. As discussed in the previous section, investors are now demanding more concise information to be presented to them in the quarterly investor reporting. Therefore, the duplication of static information each quarter is felt to be not valued by investors, except of course where there are any significant changes to such data to report.

CONTENT AND FREQUENCY OF REPORTING

PURPOSE: This section of the reporting guidelines sets out what statements and items should be included within reports to investors, particularly the annual report. Many of the requirements come from the previous INREV Guidelines "financial reporting" section.

OVERALL COMPLIANCE LEVEL: 81%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 7	Does the annual report disclose the level of compliance with INREV guidelines on a module by module basis? This should include any relevant explanations, reconciliations and calculations.	**23%**

INSIGHTS: Although this section was well-complied with an overall ratio of 81%, it was dragged down by the new requirement of the revised reporting guidelines, RG 7 which, in many reports had not yet been added. The level of compliance with this guideline did not exceed 23%.

GENERAL VEHICLE INFORMATION, ORGANISATION AND GOVERNANCE

PURPOSE: This section of the reporting guidelines sets out the key underlying information of the fund and its organisation that should be circulated to investors, and includes both strategic information, and an explanation of both fund and vehicle level governance.

OVERALL COMPLIANCE LEVEL: 69%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 12	A description of the fund governance framework?	**60%**
RG 13	A discussion of vehicle governance and oversight frameworks such as the use of independent directors and special committees and how they operate?	**54%**
RG 14	the level of adoption of INREV corporate governance best practices?	**15%**

INSIGHTS: The reason for a compliance level below the overall average compliance of 75% is primarily due to the 3 guidelines above. RG 12 existed in previous INREV Guidelines, but RG 13 and RG 14 were added and have low compliance of 54% and 15% respectively.

Similar to section "Fund documentation for reporting framework", some fund managers considered the description of the fund and vehicles governance framework as described in RG 12 and RG 13 to be static information which is available in the fund's constitutive documents and that duplication in the annual or quarterly reports would make it redundant.

The interviews gave additional insight that some funds prepare, in addition to their regular investor reporting, a compliance report that is presented to investors once a year during the shareholders meeting.

CAPITAL STRUCTURE AND VEHICLE-LEVEL RETURNS

PURPOSE: This section of the reporting guidelines sets out the required disclosures fund managers would need to consider in relation to a fund's capital structure, it's movements i.e. subscriptions/calls, redemptions/distributions etc., returns and the impact of fees on performance.

OVERALL COMPLIANCE LEVEL: 86%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 24	Does the annual report summarise how the fund's fee structure impacts the fund's capital structure and fund level returns?	**76%**

INSIGHTS: The high compliance level of 86%, can mainly be explained by the fact that most of the requirements, such as capital calls and redemptions, share class NAV's and distributions made during the year is information usually presented in the audited financial statements.

One guideline, RG 24, had a lower level of compliance mainly due to a missing summary of the fee structure of the fund.

While most set out the key fee expenses incurred during the year as a figure in the reports, they did not set out the direct impact of those fee structures on the returns.

MANAGERS' REPORT

PURPOSE: This section of the reporting guidelines is largely consistent with the previous INREV Guidelines, as it sets out what information fund managers need to include in their reports, the effects of macro-economic factors and significant events affecting the fund, to the fund's performance and fees.

OVERALL COMPLIANCE LEVEL: 83%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 30	Does the annual report discuss the current period performance in the context of the last five years?	**50%**

INSIGHTS: The Managers' Report section of the reporting guidelines concentrates on information and narrative relevant to providing investors with a thorough understanding of the overall performance of the fund and factors that may affect performance in the future.

Overall compliance is 83%, well above the overall average of 75%. It can also be noted that 72% of responding funds disclosed sufficient information to comply with at least 75% of the reporting guidelines requirements.

PROPERTY REPORT

PURPOSE: This section of the reporting guidelines is largely consistent with the preceding Guidelines and sets out what information fund managers should include in their reporting, such as portfolio allocation and valuation, developments in rental and property value, concentration and occupancy of properties, and the impact of operating costs and capital expenditure on the fund.

OVERALL COMPLIANCE LEVEL: 75%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 39	Does the annual report describe specific assumptions used in the property valuations such as: – assumed disposal scenarios? – assumed capital expenditure? – treatment of transfer taxes?	**44%**

INSIGHTS: The Property Report section of the reporting guidelines concentrates on reporting performance at the asset level. The requirements in this area focus on the different nature of various assets, from development properties to fully mature investment properties.

The disclosures regarding acquisitions and disposal of the year are well complied with a 87% compliance rate, just as the sectorial (94%) and geographical allocation (95%). The investors' reports disclose the valuation methods and methodology of the portfolio in 78% of the cases on average.

However, only 44% of the respondents are giving enough information regarding the assumptions taken in the valuation in respect of disposal scenarios, capital expenditures and transfer taxes.

It is interesting to note that 49% of the funds comply with at least 75% of the reporting guidelines in the Property report section, compared to compliance of 29% with similar guidelines in the 2012 survey. This significant increase can be attributed to the adoption of the standard IFRS 13 which came into force for the year 2013 and that requires extensive disclosures on the portfolio valuation methods, inputs and sensitivity to the main parameters of its valuation.

RISK MANAGEMENT REPORT SECTION OF GUIDELINES

PURPOSE: This section of the Guidelines sets out the organisation of the risk management function, the principal risks faced by the fund and vehicles, and the financing structure at both levels.

OVERALL COMPLIANCE LEVEL: 73%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
RG 56	Does the annual report describe the current level of compliance with risk management policies?	**52%**
RG 56	Does the annual report describe and comment on specific breaches and remedial plans?	**46%**
RG 59	Does the annual report describe and comment on the fund and SPV's current key financing ratios such as property LTV, Gearing Ratios?	**76%**
RG 59	Does the annual report describe the fund's general level compliance with such ratios?	**75%**

INSIGHTS: Compliance with this section was slightly below average. Fund managers that report on local GAAP had the worst score, while those reporting under IFRS scored twice as high (see Table 05 above for the comparison of the result by reporting framework).

The reporting guideline with the lowest level of compliance in this section is RG 56, which has been issued in the revised INREV Guidelines.

Looking at more detail at RG 59, most fund reports included LTV as a key financing ratio (81%), slightly less included gearing ratio (70%) though again, commentary on it and compliance with such ratios was light and non-existent for about 25% of the participants.

OTHER DISCLOSURES – INREV NAV & FEE METRICS REPORT SECTION OF GUIDELINES

PURPOSE: This section of the reporting guidelines sets out other disclosure requirements, including the adoption of the INREV NAV and Fee Metrics, and any deviations from third-party valuations made by fund managers.

OVERALL COMPLIANCE LEVEL: 56%

NOTEWORTHY REQUIREMENTS:

INREV GUIDELINE	SURVEY QUESTION	COMPLIANCE
NAV 3	Does the INREV NAV computation include explanatory notes and a description of key assumptions?	**68%**
FM 11	Does the annual report include TER before/after performance fees?	**40%**
FM 11	Does the annual report include REER?	**24%**
FM 11	Does the annual report include Weighted average INREV NAV?	**33%**

INSIGHTS: The NAV reconciliation (NAV 3) is generally disclosed in the investor reporting, however some of the adjustments are not always used (such as the adjustment for the negative net equity for subsidiaries with non-recourse), nor described (estimate and disclosure of disposal costs likely to be incurred taking into account the intended method of exit).

In addition, the details of the assumptions used to estimate the fair value of deferred tax and tax effect of INREV NAV adjustments is very often seen as difficult and too technical to include in the reporting.

The use of the Total Expense Ratio (TER) and Real Estate Expense Ratio (REER) Metrics have always been very low, in the 2012 survey only 20% of the funds reported a TER, and even less, 13% a REER. The TER ratio is sometimes seen as more relevant for some fund strategies (core funds) than for others (opportunity) and therefore the use of this measure is not widely spread.

The REER that provides the measure of the property expenses over the average GAV is not widely used by fund managers, some considering it as a useless concept while others consider that all constituents of the property expenses are already available in the operation statements for the use of investors.

As such these metrics have been substantially revised, already resulting in better compliance, 40% use TER and 24% a REER, but this is still relatively low.

However, it also became clear in the interviews that although some fund managers use the TER as a managing tool, they not always include them in the standard investor reporting and only communicate it to investors upon request.

Finally, the potential effect of the adoption of "Investment Entity" definition under IFRS 10 may might have an impact on the use of INREV NAV by funds in Europe, as it principally relates to funds using consolidation. Feedback from fund managers also indicates that clearer guidance from INREV is needed to encourage wider adoption in the market.

3 CONCLUSIONS AND NEXT STEPS

This year's review has shown that compliance levels with the overall INREV reporting guidelines stands at 75%. Over half of the funds (54%) comply with over 75% of the INREV reporting guidelines.

However, this year's level of compliance has been impacted by the release of the revised INREV Guidelines in April 2014. This survey used the reporting guidelines included in the revised INREV Guidelines as a reference to assess the general level of compliance, while at the time of the release several 2013 annual reports had already been issued. This resulted mainly in less compliance with added reporting guidelines or increase granularity of some of them.

The fund managers that were interviewed agreed that the required new disclosures were relevant and useful to investors and that they will probably amend their future investors' reports accordingly.

Another interesting result is that reporting guidelines dealing with quantitative information are usually well complied with as it has always been a reporting requirement and as such well embedded into the reporting process. On the opposite, qualitative disclosures, such as general vehicle information, organisation and governance, scored less due to the necessary amendment it takes to include this piece of information in a financial reporting.

The use of the TER and REER Metrics have always been very low, in the 2012 survey only 20% of the funds reported a TER, and even less, 13% a REER. The results of this survey are better (TER: 40% – REER: 24%) even if they remain quite low. The TER ratio is sometimes seen as more relevant for some fund strategies (core funds) than for others (opportunity) and therefore the use of this measure is not widely spread.

A correlation can be seen between the higher overall level of compliance and the adoption of recent IFRS standards (namely IFRS 7 and 13) that require more qualitative and quantitative disclosure on financial risk managements as well as fair value estimations.

Indeed, regarding the valuation process, 49% of the funds disclosed sufficient information to comply with at least 75% of the Guidelines requirements, compared to 29% in the 2012 survey. This increase can be attributed to the adoption of IFRS 13 which came into force in 2013 and which requires extensive disclosures on the portfolio valuation methods, inputs and sensitivity to the main parameters of its valuation.

Most of the fund managers considered the revised INREV reporting guidelines as a key framework in structuring their investors' reports. The INREV reporting guidelines are viewed as providing an objective rating tool to benchmark against the other fund managers. The INREV NAV reconciliation is generally disclosed in the investor reporting, however some of the adjustments are not always used (such as the adjustment for the negative net equity for subsidiaries with non-recourse), nor described (estimate and disclosure of disposal costs likely to be incurred taking into account the intended method of exit).

NEXT STEPS

INREV is currently busy to promote the development and implementation of the various Guideline modules, including the reporting guidelines.

Following the launch of the revised INREV Guidelines, INREV is working on the development of tailored Guidelines for the different vehicles style, structure and strategy. Working groups are being set up to review the Guidelines and to tailor them, preparation of supporting documents, illustrative examples, and provide interpretations where needed by individual members.

Feedback obtained from this survey will be taken into consideration for further work on the reporting guidelines.

We would encourage all European fund managers to read through the new material, and consider revamping their investor reporting where necessary.

APPENDIX 1: SAMPLE

Purpose of this research

The objective of this review is to provide insight into current market practices of investor reporting across non-listed real estate funds investing in Europe, and specifically to what extent reporting complies with the requirements and recommendations of the recently revised INREV Guidelines. In addition, it is important to receive ongoing feedback so we can keep the INREV Guidelines updated and develop where needed additional guidance for different fund types and associated illustrative material.

The results of this review will help INREV to support the promotion of best practice in several ways:

- The comparison with the revised Guidelines has enhanced the awareness of the revisions with fund managers and gave them an early chance to discuss the new requirements and compare with their peer groups.

- It gives insights into the level of compliance with the revised INREV Guidelines, and provides detailed feedback to each participant which steps need to be taken to complied with the revised Guidelines;

- The results of and the feedback gathered though the survey and interviews can be used to update the INREV Guidelines, and tailor the Guidelines to specific vehicle strategy and structure where needed:

- It is intended that the results will be combined with a similar survey being conducted in parallel within Asia to provide a cross regional comparison.

Review approach

The review focused on each funds' individual primary investor reporting format, which typically comprises an annual report, quarterly reporting and related investor call presentations, and to what extent such reporting complies with the relevant parts of the latest INREV reporting guidelines. Each set of reports have been analysed using a questionnaire developed by PwC for this purpose, which also included a facility for fund managers to perform a detailed on-line self-assessment.

Results from this year's review of 2013 investor reports have been determined based on a scoring scheme which reflects disclosures within each section of the revised INREV reporting guidelines, being Fund Documentation, Content and Frequency of Reporting, General Vehicle Information and Governance, Capital Structure and Vehicle-level Returns, the Manager's Report, the Property Report, Risk Management and the INREV NAV and Fee Metrics. Such a scoring scheme was used to have a consistent methodology as the ANREV review of reporting best practice survey in Asia.

The review has been performed as a quantitative research study in which the degree of adoption is determined based on scores for each of the requirements and recommendations within the revised reporting guidelines. Where possible, the review takes into account qualitative factors to help distinguish between different degrees of adoption for certain guidelines. This approach is intended to ensure a high level of consistency and fairness across the funds participating in the review, and allow comparison with the comparable survey in Asia.

A comparison article between the two surveys will be published in a separate article in the INREV Quarterly.

Some of the guidelines relate to specific topics or issues which may not be relevant for all participating funds. For example, not all funds have assets under development or hold an interest in a jointly controlled entity. Therefore, the recommended disclosure on these items was viewed as not applicable for these funds. In appraising the level of non-compliance, an item marked as "not applicable" has not been included in the compliance ratio for a specific section.

In the INREV Guidelines, a distinction is made between the Manager's Report, the Property Report and the other Financial Reporting disclosures. This distinction may not be made for the reports of some fund managers. Some financial reports are published in a free form in which fund managers' reports are included. In such cases we have taken into consideration the various reports as a whole and checked whether the requirements of the INREV Guidelines have been detailed in the free form report.

The review was carried out between September and October 2014 and comprised the following steps for each fund:

- Fund managers delivered their main investor reporting documents, for example, the fund's 2013 annual report, fourth quarter 2013 report, and any other applicable documents or investor presentations to PwC Luxembourg;

- The reports were reviewed by the PwC Luxembourg project team, who completed a compliance assessment to the INREV reporting guidelines;

- Fund managers have been requested to prepare a Self-Assessment where possible. Where relevant, the PwC Luxembourg assessment was compared to the Self-Assessment prepared by the fund manager. The PwC Luxembourg project team held conference calls to discuss the reasons for any non-compliance with several respondents, and conducted a wider discussion on fair value, sustainability, how investor interaction is changing, and the realities of dealing with changing investor demands;

- Fund managers will be given individual feedback for their funds shortly after the publication of this review. This will comprise their compliance scores and recommendations on areas of improvement for specific requirements within the revised INREV reporting guidelines.

Sample

The INREV Universe comprises 452 members, including institutional investors, investment banks and fund managers. For the purpose of this review, INREV sent requests to 188 fund managers (195 in 2012) to participate in this survey, and to submit their main 2013 investor reporting.

Information was received from 33 fund managers, with reports for 67 funds. The number of fund managers responding decreased compared with the 2012 study (123 funds from 66 funds managers were received in 2012). Among the documents received from fund managers were both annual and quarterly reports but also a self-assessment checklist assessing compliance with each of the Guidelines.

Out of the 67 funds for which we received information, 39 were included in our review. In order not to overweight some fund managers over others in our sample, we used no more than two reports from the same fund manager. Indeed, the aim of this survey is to obtain a sample representative of the whole fund manager Universe.

Funds holding a minority stake in their investments ("funds of funds") were excluded from our sample as the disclosures related to the properties; leverage and risk management would likely not to apply and would provide few useful informative results.

The proportion of the participating funds has slightly decreased compared to previous year. The sample of 39 funds, represent 9 % if the total INREV Universe (454 different funds), which is a significant reduction compared to 15% in 2012 and 14.6% in 2011.

FIGURE A01 / FUND STYLE AS A PROPORTION OF THE POPULATION

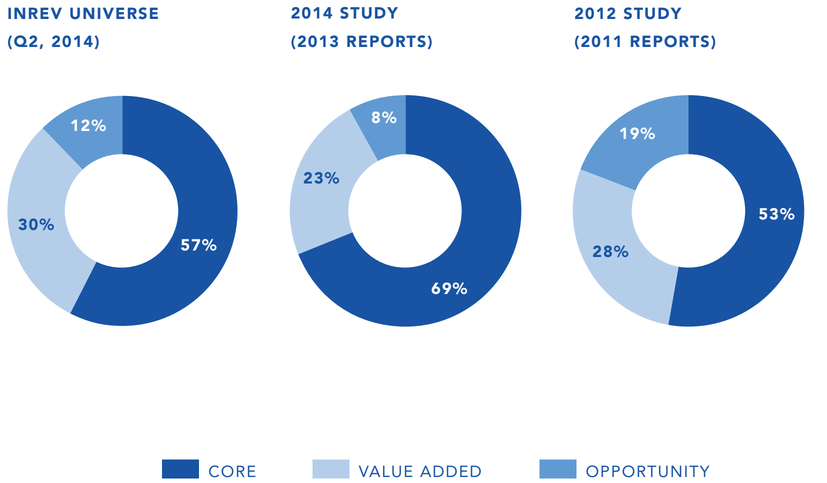

Figure A01 shows the sample for this survey in terms of fund strategy in comparison with the Universe and the sample used in previous year's review. The sample includes 16% more core funds than the 2012 survey and 12% more than the Universe, however, the ratio is in line with the 2011 survey (62%).

TABLE A01 / TARGET ALLOCATION

FUND STRATEGY	UNIVERSE		2014 STUDY (2013 REPORTS)		2012 STUDY (2011 REPORTS)	
	COUNT	%	COUNT	%	COUNT	%
SINGLE COUNTRY	262	58%	23	59%	36	51%
MULTI-COUNTRY	190	42%	16	41%	34	49%
OVERALL	**452**	**100%**	**39**	**100%**	**70**	**100%**

FIGURE A02 / FUND STYLE AS A PROPORTION OF THE POPULATION

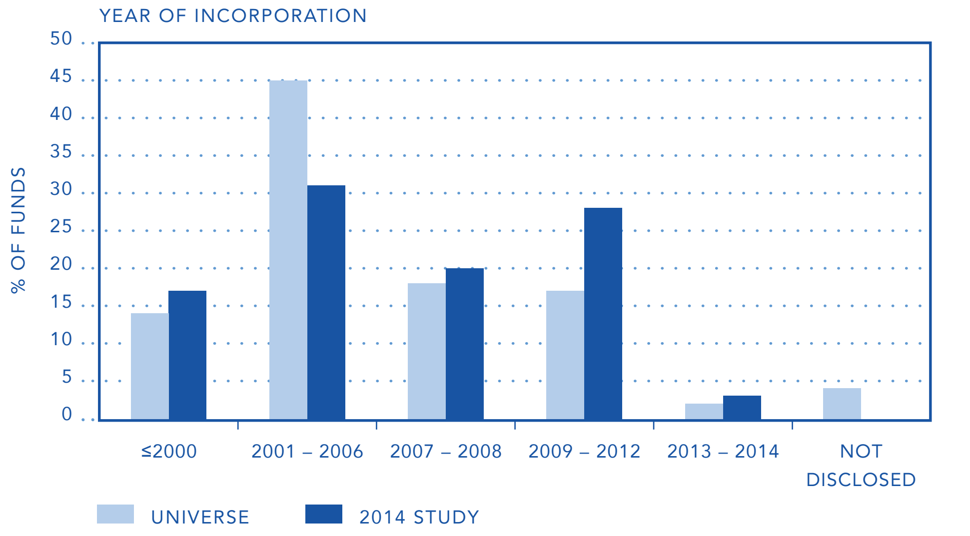

Figure A02 shows that this survey has a rather large proportion of more recent funds (2009 – 2012) than the Universe. It is however interesting to note that the sample is more evenly split than the INREV Universe (between 18% and 31% of our same is split across the four periods from 2000 to 2012).

Follow-up interviews were held with 6 of the 33 (18%) participating fund managers and covered 9 of 67 (13%) respondent funds. Those interviews were mainly focused on the accuracy of the questionnaire but also on important themes linked to the investors' reporting.

The following tables show the breakdown of respondents for the 2014 study by fund style and strategy.

TABLE A02 / RESPONDENTS BY FUND STYLE AND STRATEGY

	FUND STRATEGY						
FUND STYLE	SINGLE COUNTRY					MULTI-COUNTRY	OVERALL
	FRANCE	GERMANY	THE NETHERLANDS	UK	OTHER		
CORE							
OPEN END	0	1	4	4	2	6	**17**
CLOSED END	3	0	1	1	1	4	**10**
VALUE ADDED					0		**0**
OPEN END	0	0	0	0	0	2	**2**
CLOSED END	1	2	0	1	0	3	**7**
OPPORTUNITY					0		**0**
VALUE ADD	0	0	0	0	0	0	**0**
CLOSED END	0	1	0	0	1	1	**3**
OVERALL	**4**	**4**	**5**	**6**	**4**	**16**	**39**

TABLE A03 / RESPONDENTS BY REPORTING STANDARDS

REPORTING STANDARD	NUMBER OF FUNDS	PROPORTION
SWEDISH GAAP	1	3%
GERMAN GAAP	6	15%
IRISH GAAP	1	3%
UK GAAP	3	8%
LUXEMBOURG GAAP	3	8%
IFRS	25	64%
OVERALL	**39**	**100%**

APPENDIX 2: DETAILED COMPLIANCE RESULTS

TABLE A04 / LEVEL OF COMPLIANCE BY INREV GUIDELINES SECTIONS

	LEVEL OF COMPLIANCE											
SECTION OF GUIDELINES	ABOVE 50%		ABOVE 75%		ABOVE 80%		ABOVE 85%		ABOVE 90%		ABOVE 95%	
	# OF FUNDS	%	# OF FUNDS	%	# OF FUNDS		# OF FUNDS	%	# OF FUNDS	%	# OF FUNDS	%
FUND DOCUMENTATION FOR REPORTING FRAMEWORK	26	67	26	67	26	67	26	67	26	67	26	67
CONTENT AND FREQUENCY OF REPORTING	39	100	28	72	9	23	9	23	9	23	9	23
GENERAL VEHICLE INFORMATION, ORGANISATION AND GOVERNANCE	32	82	15	38	12	31	12	31	4	10	4	10
CAPITAL STRUCTURE AND VEHICLE LEVEL RETURNS	38	97	32	82	24	62	18	46	18	46	18	46
MANAGERS' REPORT	37	95	28	72	25	64	21	54	17	44	16	41
PROPERTY REPORT	37	95	19	49	15	38	13	33	12	31	7	18
RISK MANAGEMENT	31	79	19	49	18	46	16	41	16	41	15	38
OTHER DISCLOSURE REQUIREMENTS	19	49	12	31	10	26	9	23	9	23	7	18
LEVEL OF OVERALL COMPLIANCE WITH THE GUIDELINES	38	97	21	54	18	46	13	33	6	15	2	5

'NREV