INREV



# Compliance with INREV Guidelines remains strong

- The 2014 revision had no negative impact on the already high compliance
- Funds reporting under IFRS have higher level of compliance
- Compliance with INREV fees and expense metrics have improved but remain weak

The annual Review of Reporting Best Practice provides insights into current market practices of investor reporting across non-listed real estate funds investing in Europe and looks to what extent reporting complies with the INREV reporting guidelines.

## THE 2014 REVISION HAD NO NEGATIVE IMPACT ON THE ALREADY HIGH COMPLIANCE

The overall average compliance remains high at 75% compared to 2012. Due to the Guidelines revision, this annual study had not been conducted in 2013. The share of funds that comply with 75% or more of the guidelines has even increased by 8 percentage. This indicates that the revision had no impact on the overall compliance with the reporting guidelines.

Although the structure of the reporting guidelines significantly changed, and they now also apply to interim guidelines, most of the requirements are consistent with the previous guidelines. This explains the stable high overall compliance. However, there are some additional guidelines and an increase of quantitative disclosure requirements behind the figures. Not surprisingly, compliance for these sections is lower, partly due to the necessary amendments it takes to include this information in financial reporting.

## LEVEL OF COMPLIANCE BY SECTION

| Sections of reporting guidelines | Compliance |
|---|---|
| **Overall compliance with the guidelines** | **75%** |
| Capital structure and vehicle level returns | 86% |
| Managers' report | 83% |
| Content and frequency of reporting | 81% |
| Fund documentation for reporting framework | 79% |
| Property report | 75% |
| Risk management | 73% |
| General Vehicle information, Organisation and Governance | 69% |
| Other disclosures | 56% |

Most fund managers consider the INREV reporting guidelines as a key framework in structuring their investor reporting. They agreed with the revised reporting guidelines as these are in line with today´s market practice, but wonder if some of the quantitative disclosures such as Vehicle information, organisation and governance need to be in the fund´s constitution documents or yearly in the annual report. Investors increasingly demand concise information in quarterly investor reporting and the duplication of static information, unless significant changes occur, is felt not to be of value for investors.

PROFESSIONAL STANDARDS

## FUNDS REPORTING UNDER IFRS HAVE HIGHER LEVEL OF COMPLIANCE

High compliance remains for financial figures that are usually presented in the audited financial statements. With many funds reporting under IFRS, a strong correlation can be seen between the high overall level of compliance and the adoption of recent IFRS standards (particular IFRS 7 and 13) that require more qualitative and quantitative disclosure on financial risk managements as well as fair value estimations.

## COMPLIANCE WITH INREV FEES AND EXPENSE METRICS HAVE IMPROVED BUT REMAIN WEAK

The lowest compliance levels correspond to the ´Other disclosure requirements´, and in particular to the fee metrics. Despite the fact that the INREV Guidelines module Fees and expense metrics has significantly been revised, the Fee and expense metrics remain weak. Only 40% of the funds report a total expense ratio (TER). Although this is a significant improvement compared with 20% in the 2012 review, TER is still seen as more relevant for particular fund strategies (core funds) rather than for others (opportunity) and therefore the use of this measure is not widely spread.

In the interviews, however it became clear that fund managers use the TER as a managing tool, and not always include it in their investor reporting but communicate it to investors upon request.

Another area that continues to be weak despite the revision is the use of INREV NAV. 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). 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.

This year´s review serves as a ´dry run´ or marker for participating fund managers to consider when reviewing, revising and setting up their reporting templates and other investor communications for 2014 and beyond. Most 2013 investor reports included in the study had already been produced by the time the revised INREV Guidelines were launch in April 2014.

For the review, INREV included 67 funds from 33 fund managers which was a reduction compared to previous years this was mainly due to the relative short survey period from September to October 2014. Of the 67 reports received, 39 were included. No more than two reports from the same fund manager were included as fund reporting is likely to be standard across a manager's range of funds.

### REPORTING TRENDS IN EUROPE

- Work in progress to comply with revised INREV Guidelines as managers are keen to maintain a high level of compliance
- Fund managers are putting more importance and effort in sustainability reporting
- Investments in technology with the use of online investor reporting portals and 'real-time' dialogues
- Bespoke reports and pressure over shorter reporting deadlines, emphasises need for further standardisation

The full report is available to members at www.inrev.org. For further information contact: Maurits.Cammeraat@inrev.org

PROFESSIONAL STANDARDS