Trends in Investor Reporting
2015

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 vehicles 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.

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Foreword

Welcome to the Trends in Investor Reporting 2015 aiming to provide insight into current market practices in investor reporting across non-listed real estate vehicles investing in Europe, and specifically the extent to which reporting complies with the requirements and recommendations of the INREV Guidelines.

This study was carried out in collaboration with PwC Luxembourg between July and October 2015. The documents received from fund managers included annual and quarterly reports, and a self-assessment checklist detailing compliance with the reporting guidelines.

Information was received for 47 funds from 26 fund managers. This year we used no more than two reports from the same fund manager, in order to obtain a sample representative of the whole fund manager universe. Of the 47 funds for which information was received, 35 were included in the review.

In addition to the self-assessment checklist, interviews were conducted with several of the participating fund managers. A number of the themes highlighted in these interviews offer interesting perspectives on trends in reporting and fund management practices across Europe.

Compliance with the INREV Reporting Guidelines has remained high this year, at 73% overall. The overall level of compliance is slightly lower this year than for the 2014 survey (75%). This decrease is mostly explained by a shift in the data sample, as new respondents scored lower than the average compliance level (66% on average). 37% of this year's respondents did not take part in the 2014 survey.

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

On behalf of INREV, we 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

Maurits Cammeraat
Director of Professional Standards, INREV

Executive Summary

Managers hold deep commitment to the INREV Guidelines

The **financial aspects of the reporting guidelines**, such as capital structure and vehicle level returns, **are well complied with**. Quantitative information has always been a reporting requirement for funds, and as such is well embedded into their reporting processes. In contrast, qualitative disclosures, such as general vehicle information, organisation and governance, show a lower score due to the updating needed to include the required information in financial reporting.

The guidelines relating to INREV NAV and fee metrics are the sections with the lowest level of compliance. As was noted in the 2014 survey, the use of TER and REER is not widely spread. The TER ratio is often considered to be more relevant for some fund strategies than others, while REER is not widely used by fund managers, some of whom consider it a less helpful concept. Others believe that all components of property expenses are already available for investors to consult in operation statements.

‘Funds reporting under IFRS show a higher level of compliance’

On average, funds reporting under IFRS show a higher level of compliance with the INREV Reporting Guidelines, in particular for the sections relating to risk management and other disclosure requirements. This is mostly explained by the adoption of IFRS 7 and IFRS 13.

AIFMD triggers rethink of reporting design

The implementation of the AIFMD has impacted the internal organisation of all fund managers targeted by the directive. Fund managers were most affected in the areas of corporate governance, remuneration schemes, valuation processes and portfolio management.

Quarterly external investment valuation becomes the norm

Valuations of the funds’ investments are mostly performed externally and on a quarterly basis. Managers reported that 77% of the funds’ assets are valued externally, 7% internally and 16% both internally and externally. On valuation frequency, 68% of the funds are valued quarterly while 10% are valued monthly, 13% bi-annually and 9% annually.

INREV SDDS reporting implementation is under way

INREV SDDS reporting is being **gradually implemented** by fund managers. Fund managers have implemented or are planning to implement SDDS reporting for **62% of the funds**. This percentage rises to 80% for funds reporting in IFRS. The interviews also indicated that most fund managers only provide SDDS to investors upon request, as only a few (usually those with the largest investments) require such reporting.

Managers are strategically investing in IT and data analytics

Fund managers continue to invest in information technology and data analytics applications. Almost 80% of the fund managers surveyed have invested, are investing or have plans to invest strategically in information technology or data analytics in the future.

Section 1

Investor reporting adapts to the ‘new normal’

Investor reporting adapts to the 'new normal'

Managers hold deep commitment to the INREV Guidelines

Overall average compliance with the reporting guidelines is relatively high **at 73%**. The 2015 results reflect a slightly lower level of compliance compared to the 2014 survey, which showed an overall level of 75%. The decrease is mainly explained by turnover in the fund sample, as new respondents exhibited lower than average compliance levels (66% on average). 37% of this year's respondents did not take part in the 2014 survey.

The guidelines on disclosure relating to fund documentation, the content and frequency of reporting, capital structure and returns, the description of market developments and the main events impacting the fund, show the highest level of compliance. The INREV NAV disclosure requirements and the fee and expenses metrics were the least complied with.

Table 1 (on page 8) shows that compliance with the financial aspects of the reporting guidelines, such as capital structure and vehicle level returns, remains strong. Quantitative information has always been a reporting requirement and is therefore well embedded in the reporting process.

> 'Compliance with INREV Guidelines is embedded in the core of our reporting process'
>
> Fund manager, Luxembourg

Qualitative disclosures, such as general vehicle information on organisation and governance, have a relatively low score due to the updating needed to include the required information in financial reporting.

2014 Revised INREV Guidelines Adoption and Compliance Framework

The reporting requirements have been clarified and reorganised to better reflect the structure and content of investor reports, based on a survey of existing best practices.

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.

To read more about the 2014 Revised INREV Guidelines, please go to:

www.inrev.org/guidelines

Figure 1 (on page 8) shows the cumulative level of compliance with the reporting guidelines. More than 90% of the sample comply with at least 50% of the guidelines and 42% of the sample comply with between 50% and 75%, **while 49% of the sample comply with more than 75%**.

Interestingly, compared to the 2014 survey, the top performers tended to perform better whereas the bottom performers tended to perform worse. This year 23% of the respondents complied with more than 90% of the guidelines, compared to 15% in 2014. At the same time, 9% of the respondents complied with 50% or fewer of the guidelines, compared to only 3% in 2014.

The interviews showed that fund managers consider the reporting guidelines to be an important framework for structuring their investor reporting. The INREV Guidelines, including the reporting guidelines, are also seen as an objective rating tool for comparing and benchmarking against peers.

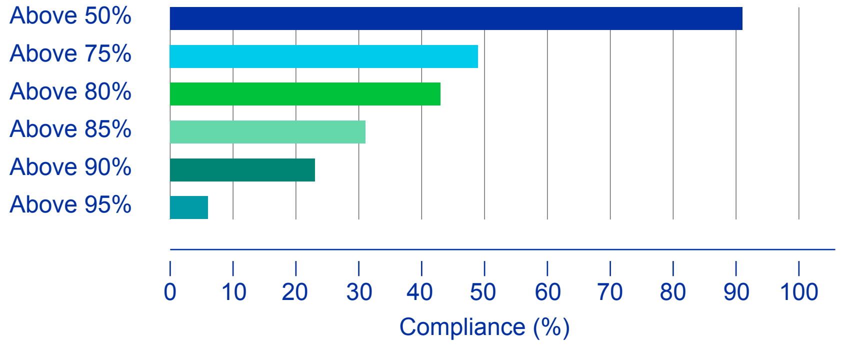
The survey found that funds reporting under IFRS exhibit a higher level of compliance with the INREV Reporting Guidelines than those reporting in local GAAP (81% versus 58%), in particular for the sections 'Risk management' and 'Other disclosure requirements'. The levels of compliance for the various sections of the INREV Guidelines are reported in Appendix 4, listed by reporting standard and by fund type.

It is worth noting that the IFRS 7 standard requires quantitative disclosures on the main financial risks, but also a qualitative description of the risk management process in place within the fund's organisation.

Table 1: High level of overall compliance on all sections

Sections of reporting guidelines	Compliance
Fund documentation for reporting framework	84%
Content and frequency of reporting	86%
General vehicle information, organisation and governance	65%
Capital structure and vehicle level returns	79%
Managers' report	79%
Property report	72%
Risk management	74%
Other disclosure requirements	58%
Level of overall compliance with guidelines	**73%**

Figure 1: 91% of funds complies with at least 50% of the INREV Guidelines



Furthermore, IFRS 13 requires additional disclosure on the fair value of assets and liabilities, including the valuation methods used, main inputs recorded and a sensitivity analysis allowing investors to understand the detail of the valuations. In this respect, information relating to the INREV NAV adjustments and how those adjustments were calculated is usually easier to report for fund managers applying IFRS.

As an aside, amongst all funds that report under IFRS, only one is classed as an investment entity as defined by IFRS 10.

According to the survey, compliance levels for closed end funds are slightly lower than for open end funds. The difference could be due to the smaller number of closed end funds reporting in IFRS compared to open end funds (61% as against 71%).

Although this study relates to the use of and compliance with the INREV Reporting Guidelines, a number of other themes were raised during the survey process and the subsequent interviews with fund managers. Taken together, these themes illustrate the ongoing evolution of the fund management and investor reporting cycle in Europe.

The sections below describe some of these themes.

AIFMD triggers rethink of reporting design

> ‘The implementation of AIFMD has helped us improve and channel processes that were already in place’
>
> Fund manager, The Netherlands

The Alternative Investment Fund Managers Directive (‘AIFMD’), which came into force on 21 July 2011, has had a significant impact on Alternative Investment Fund Managers (‘AIFMs’) and their oversight.

Opportunities for further compliance

Fund managers were asked to provide the reasons for non-compliance when this occurred. These fell under the following broad headings:

- Required disclosures were not fully understood;
- Required disclosures were considered to add value but were not indispensable;
- Required disclosures were regarded as relevant and will be incorporated in future reporting.

In several cases, the adoption of certain reporting guidelines was postponed due to the ongoing implementation of new reporting standards such as SDDS.

Appendix 2 provides advice on better compliance with the guidelines for those with the weakest performance. This advice was gathered from top performing fund managers.

As already stated, overall average compliance with the guidelines is relatively high, with some sections performing better than others. Within each section of the guidelines, however, several requirements remain less well complied with. For further detail on these requirements as well as an in-depth view of the areas where improvement has taken place, please refer to the Appendix.

All fund managers confirmed that the **AIFMD impacted their internal organisation**. 79% of the AIFMs declared they were affected with regard to corporate governance, 71% in relation to remuneration schemes, 63% in the valuation process and 54% in portfolio management.

70% of the funds in this survey are Alternative Investment Funds ('AIFs'), according to the AIFMD definition. Amongst these AIFs, 67% appointed an external AIFM. 65% of the respondents opted to set up the AIFM in the country of the fund. Fund managers have thus chosen the passport option for only 35% of the funds.

Regarding corporate governance, fund managers explained that their risk management and portfolio management functions were separate, leading to the creation of two distinct committees. For the valuation process, appraisers' contracts needed to be amended to comply with AIFMD requirements, while an independent valuation function was also sometimes created internally. Finally, the AIFM remuneration policies (especially variable remuneration schemes) were amended in accordance with the directive.

The AIFMD impacted only 47% of the funds in relation to their insourcing/outsourcing processes and as few as 17% changed the structuring of their investments. It is also worth mentioning that, when asked if they expected major impacts on their structuring due to tax changes (such as BEPS and FATCA), fund managers answered negatively in 75% of cases.

'We believe that quarterly valuation is the optimal frequency for monitoring our investments' performance in line with reporting, while not being overly time and energy consuming'

Fund manager, Luxembourg

Quarterly external investment valuation becomes the norm

As investment valuation is at the heart of investment fund performance, fund managers emphasise the need to deliver accurate and regular valuation information. This year's survey and interviews have closely examined the valuation processes of fund managers.

According to the survey, **77% of the fund managers perform an external valuation process** for their investments, while 7% perform an internal valuation process and 16% are using both methods. Regarding valuation frequency, **68% of the funds are valued quarterly** while 10% are valued monthly, 13% bi-annually and 9% annually.

Figure 2: 68% of the funds are valued quarterly

10% Monthly
68% Quarterly
13% Bi-annually
9% Annually

With regard to the valuation process itself, 75% of the funds opted for an annual appraiser site visit, while funds that have opted for a visit six-monthly, two-yearly and four-yearly each account for 4%. The remaining 13% of the funds either have an undefined process, a visit at least once every three years or a visit at acquisition and following any major events. On appraiser accreditation, fund managers require the appraiser to be RICS compliant for 79% of the funds, while 21% have local certification.

Regarding the appraiser tender process, 50% of the funds go through this every three to four years. As many as 33% of the funds have no defined policy on the tendering process. The remainder have frequencies ranging from never to every two years.

INREV SDDS reporting implementation is under way

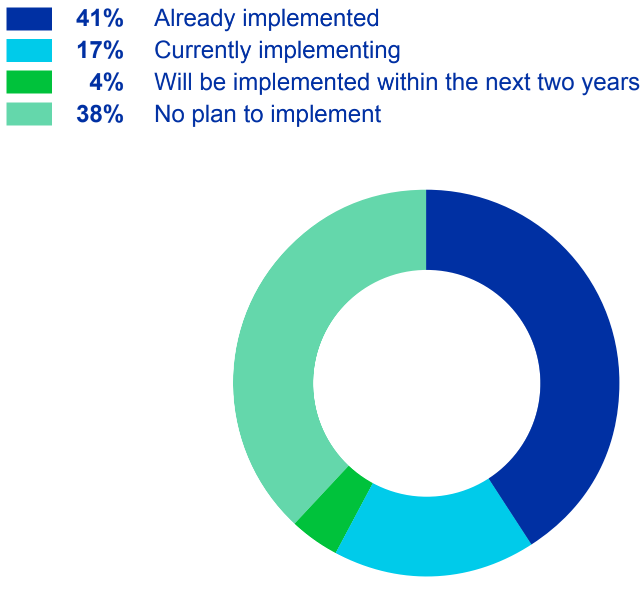
INREV SDDS reporting has already been implemented, is currently being implemented and/or will be implemented within the next two years for **62% of the funds**. In contrast, fund managers are not planning to implement INREV SDDS reporting for only 38% of the funds. It emerged from the interviews that most fund managers provide SDDS to investors on a request basis as only a few (usually those with large investments) require such reporting.

Looking at the split by reporting standard, fund managers have implemented, are currently implementing and/or will implement INREV SDDS reporting within the next two years for 80% of the funds under IFRS, compared to 22% of the funds that report in local GAAP.

INREV Standard Data Delivery Sheet

Launched in October 2012, the INREV Standard Data Delivery Sheet ('SDDS') aims to standardise the information exchanged between a fund manager and an investor. The main goals of SDDS reporting are to increase transparency and performance monitoring, increase comparability and to improve the efficiency of fund manager operations.

Figure 3: High level of INREV SDDS reporting implementation



A majority of the managers of funds incorporated in Continental Europe have implemented, are implementing or will implement the INREV SDDS reporting. On the other hand, a majority of fund managers with funds incorporated in the UK, Jersey and the US have no plan to implement the INREV SDDS reporting.

Managers are strategically investing in IT and data analytics

Information technology and data analytics are now intrinsic elements of fund management and are indispensable in the decision-making process.

Managers are continuously investing in this area, as almost **80% of the respondents** have invested, are investing or have plans to strategically invest in information technology and/or data analytics in the future. 45% of the respondents are currently investing, 41% are planning to invest in the near future and 45% have recently invested in information technology and/or data analytics. It should be noted that 48% of the fund managers that have invested or are currently investing also plan to invest in information technology and/or data analytics in the future.

'Fund managers most often use Yardi, SAP, eFront and Microsoft Excel. Other IT solutions such as MRI and ARGUS were also cited a number of times'

Table 2: Higher INREV SDDS implementation for funds under IFRS

	Reporting standard	
	Local GAAP	IFRS
Already implemented	22%	50%
Currently implementing	0%	25%
Will be implemented within the next two years	0%	5%
No plan to implement	78%	20%

The survey and subsequent interviews showed that fund managers most often use Yardi, SAP, eFront and Microsoft Excel. Other IT solutions such as MRI and ARGUS were also cited a number of times. Most fund managers believe that the IT market currently provides all the tools they need.

Regarding big data analytics in the broad sense of the term (i.e. data processing applications used to analyse large datasets), 20% of the respondents confirmed using such applications to analyse the real estate market. However, the interviews indicated that very few fund managers use complex predictive analytics in their investment decision making process.

Section 2

Paths forward

Paths forward

As shown by the overall compliance level of 73%, this year fund managers have once again strongly complied with the INREV Reporting Guidelines. As in the previous years, the quantitative requirements have scored better than the qualitative ones. This is explained by the fact that financial information has always been part of the reporting process, while qualitative disclosure usually takes time to implement.

This study has also shown that the reporting standard of the funds influences their compliance level. Funds reporting under IFRS exhibit, on average, higher compliance levels than funds under local GAAP. The sections of the guidelines showing the largest variations in compliance relate to risk management and other disclosure requirements, a direct consequence of the adoption of IFRS 7 and IFRS 13.

Most of the fund managers consider the INREV Reporting Guidelines to be the most important framework for structuring their investors' reports. They also view the INREV Guidelines as an objective rating tool which helps compare and benchmark their reporting against other funds.

One of the key findings of this study is that fund managers constantly innovate and adapt to their changing environment. Following the implementation of AIFMD, they redesigned their internal organisations in order to comply with the directive. Fund managers are also keeping pace with evolving technology, as almost 80% have invested, are investing or have plans to invest strategically in information technology and/or data analytics in the future. Last but not least, 62% of the fund managers have already implemented, are currently implementing and/or will implement INREV SDDS.

The interviews also confirmed that fund managers are constantly looking to improve their investor reporting through stronger compliance with the INREV Guidelines. Advice for better compliance, given in Appendix 2, was added to this year's study in order to support fund managers in achieving better compliance. We believe that full compliance with the INREV Guidelines is a reachable goal that this study will help fund managers to achieve.

INREV will continue to be the voice of the non-listed real estate industry and lead the development of global industry standards. Additionally, it will also seek to improve market participants' understanding of, and reduce barriers to, investment in non-listed real estate, as well as to attract and retain key investors and market participants in line with the diversity of the industry.

> 'Better compliance with INREV Guidelines is already on our agenda for our 2015 annual reporting'
>
> Fund manager, Ireland

Appendix 1

Review approach and sample

Review approach and sample

Review approach

The review was carried out between July and October 2015 and comprised the following steps for each fund:

- Fund managers delivered their main investor reporting documents, for example, the fund's 2014 annual report, fourth quarter 2014 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 with the INREV Reporting Guidelines;
- Fund managers have been requested to prepare a self-assessment. Where relevant, the PwC Luxembourg assessment was compared to the self-assessment prepared by the fund manager.
- When no reporting changes occurred during the year, fund managers were allowed to roll forward their self-assessment performed in the previous year;
- 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, changes to investor interaction, and the realities of dealing with changing investor demands;
- Fund managers will be given individual feedback on their funds shortly after the publication of this review. This will comprise their compliance scores for the revised INREV Reporting Guidelines.

Sample

The INREV Universe comprises 468 vehicles. For the purpose of this review, INREV sent requests to 183 fund managers (188 in 2014) to participate in this survey, and to submit their latest investor reporting.

Information was received from 26 fund managers, with reports for 47 funds. The number of fund managers responding decreased compared with the 2014 study (67 funds from 33 fund managers were received in 2014). Among the documents received from fund managers were both annual and quarterly reports, together with a self-assessment checklist assessing compliance with each of the guidelines.

Of the 47 funds for which we received information, 35 were included in our review (39 in 2014). 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. Therefore, the aim of this survey is to obtain a sample representative of the whole fund manager Universe.

The proportion of the participating funds has slightly decreased compared to previous year. The sample of 35 funds represents 7% of the total INREV Universe (468 different funds), which is a decrease compared to 9% in 2014.

Figure 4 (on page 17) 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 5% more core funds than the 2014 survey and 17% more than the Universe.

Table 3 (on page 17) shows the breakdown of respondents for the 2015 study by fund style and strategy.

Figure 4: Fund style as a proportion of the population

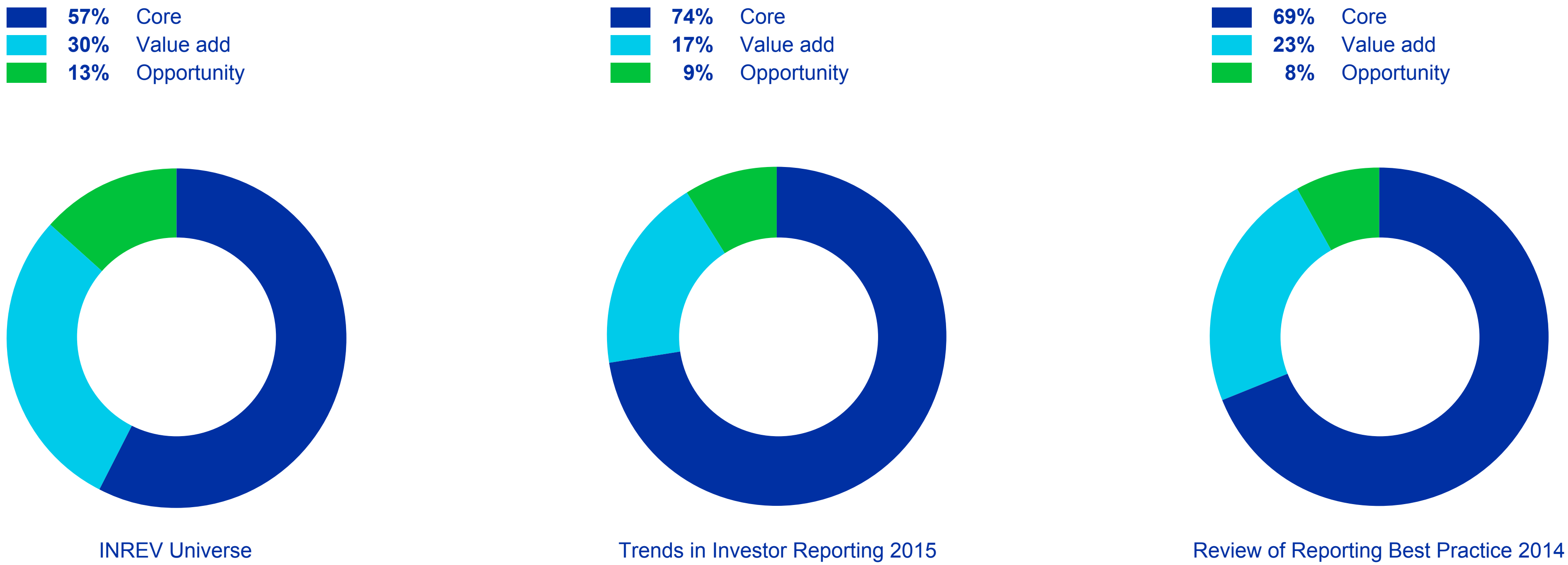


Table 3: Number of respondents by fund style and strategy

		Fund strategy						Overall
							Multi-country	
		Germany	The Netherlands	Portugal	UK	Others		
Core								
	Open end	0	4	0	3	1	7	**15**
	Closed end	1	0	2	2	1	5	**11**
Value add								**0**
	Open end	0	0	0	0	1	1	**2**
	Closed end	1	0	0	0	1	2	**4**
Opportunity								**0**
	Open end	0	0	0	0	0	0	**0**
	Closed end	1	0	0	0	0	2	**3**
Overall		**3**	**4**	**2**	**5**	**4**	**17**	**35**

Appendix 2

Compliance with INREV Guidelines by section

Compliance with INREV Guidelines by section

Fund documentation for reporting framework

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

Overall compliance level: 84%

Insight: This section was generally well complied with by most fund managers, though some discrepancies can be seen amongst 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 questioned whether the disclosures should be made in the fund's legal documents or yearly in the annual report.

According to the interviews with fund managers, information on the basis, frequency and timing of the preparation of the annual reports is considered to be 'static' information, should belong in the funds' constitutional documents and be disclosed in the annual report only when there are significant changes.

Advice for better compliance - FD 19: When the basis, frequency and timing of reporting is stated in the fund's constitutional documents, it is suggested that fund managers make reference to this document in their reporting.

Content and frequency of reporting

Purpose: This section of the reporting guidelines sets out the statements and items that should be included within reports to investors, particularly the annual report.

Overall compliance level: 86%

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.	26%

Insight: This section shows an overall compliance level of 86%, which is the highest amongst all sections. It should be noted that 91% of responding funds disclosed sufficient information to comply with at least 75% of the reporting guidelines requirements. Even though overall compliance for this section is high, compliance with respect to RG 7, relating to the disclosure of the level of compliance on a module by module basis, is low at 26%. According to fund managers, the reasons for non-compliance with RG 7 are twofold. Firstly, they are not always fully aware of how to disclose this guideline in their reports. Secondly, investors have so far not shown a strong interest in receiving information regarding compliance with INREV Guidelines on a module by module basis.

Advice for better compliance - FD 7: In order to comply with RG 7, fund managers simply have to list the INREV Guideline modules and indicate their degree of compliance with the corresponding modules.

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 fund and vehicle level governance.

Overall compliance level: 65%

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
RG 14	Does the annual report include the level of adoption of INREV corporate governance best practices?	17%
RG 15	Does the annual report include a description of the level of compliance with the corporate governance framework defined in the fund documentation?	40%

Insight: The reason for a compliance level below the overall average of 73% is primarily the scores for the two guidelines above.

The low compliance level for RG 14 can be explained by the fact that only a few fund managers have adopted the INREV corporate governance best practices. It is, however, interesting to note that only 40% of the fund managers disclose the level of compliance with their own framework. The interviews gave us additional insight on this point: in addition to their regular investor reporting, some fund managers prepare a compliance report that is presented to investors once a year at the shareholders meeting.

Advice for better compliance - RG 14 & RG 15: We recommend fund managers disclose information regarding compliance with their corporate governance framework. We also advise fund managers to refer to and consider adapting INREV corporate governance best practices when designing and implementing an oversight framework. Finally, in order to assess their corporate governance against best practices, fund managers are encouraged to use the INREV corporate self-assessment tool.

Capital structure and vehicle-level returns

Purpose: This section of the reporting guidelines sets out the disclosures fund managers need to make in relation to a fund's capital structure, its movements (i.e. subscriptions/calls, redemptions/ distributions etc.), returns and the impact of fees on performance.

Overall compliance level: 79%

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
RG 21	Does the annual report summarise and comment on key investor returns and related metrics including comparison with targets, benchmarks and relevant indices?	62%
RG 24	Does the annual report summarise how the fund's fee structure impacts the fund's capital structure and fund level returns?	57%

Insight: The high compliance level of 79% is 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, are included in the information usually presented in the audited financial statements.

With a level of compliance standing at 62%, RG 21 scored lower than the section average. While fund managers fully disclose the fund's key returns, they do not necessarily compare it to targets, benchmarks or relevant indices.

RG 24 has a low level of compliance mainly due to missing summaries of the fee structure of the fund. While most fund managers set out the key fee expenses incurred during the year as a figure in the reports, they did not all set out the direct impact of those fee structures on returns.

Advice for better compliance - RG 21: If fund managers believe that it is not possible to find a relevant benchmark or index for their fund, we recommend comparing the fund's performance with its target return.

Managers' report

Purpose: This section of the reporting guidelines sets out the information fund managers need to include in their reports, including the effects of macro-economic factors and significant events affecting the fund on the fund's performance and fees.

Overall compliance level: 79%

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?	38%

Insight: The Managers' Report section of the reporting guidelines focuses on the need for information and a narrative to give investors a thorough understanding of the overall performance of the fund and factors that may affect performance in the future. Compliance with this section as a whole stands at 79%, above the overall average of 73%. It should also be noted that 71% of responding funds disclosed sufficient information to comply with at least 75% of the reporting guidelines' requirements.

With a 38% compliance level, RG 30 is the guideline with the lowest score. Most fund managers disclose and discuss the performance in the current period in comparison to that of the previous year, but not with the last five years.

Advice for better compliance - RG 30: Compliance with RG 30 requires that fund managers disclose and discuss the fund's current performance, not only against the previous year but also the last five years. This would allow investors to have a better view and understanding of the long-term performance of the fund compared to its market.

Property report

Purpose: This section of the reporting sets out the information fund managers should include in their reporting, such as portfolio allocation and valuation, changes in rental and property values, the concentration and occupancy of properties, and the impact of operating costs and capital expenditure on the fund.

Overall compliance level: 72%

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?	38%

Insight: 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 characteristics of the assets, from development properties to fully mature investment properties.

The disclosures regarding acquisitions and disposals over the year have a high compliance rate of 89%. Compliance for the other property related information (changes in rental and property value, concentration and occupancy of properties, and the impact of operating costs and capital expenditure) averaged 65%.

The investors' reports disclose valuation methods and assumptions as well as appraiser information in 67% of cases on average. However, only 38% of the respondents are disclosing sufficient information on the assumptions made in the valuation relating to disposal scenarios, capital expenditures and transfer taxes.

Risk management

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

Overall compliance level: 74%

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
RG 56	Does the annual report describe the current level of compliance with risk management policies?	43%
RG 56	Does the annual report describe and comment on specific breaches and remedial plans?	48%

Insight: Compliance with this section is slightly above the overall average. It is interesting to note that funds reported under IFRS scored significantly higher (84%) than funds in local GAAP (54%). This difference is mostly due to the risk management report requirements of IFRS 7.

While compliance with RG 55 ('Description of the overall organisation of the risk management function by reference to key risk policies and procedures') is on par with the overall average, RG 56, which requires a description of the level of compliance with these policies, scored a low 43%. This was similar to RG 15, relating to the level of compliance with the corporate governance framework, where fund managers disclose the policies and procedures in place but do not comment on the level of compliance with these policies and procedures.

Advice for better compliance - RG 56: In line with the advice for corporate governance, we recommend fund managers should disclose information regarding compliance with their risk management policies and procedures.

Other disclosures - INREV NAV & Fee Metrics

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: 58%

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
NAV 3	Does the INREV NAV computation include explanatory notes and a description of key assumptions?	56%
FM 11	Does the annual report include TER before/after performance fees?	39%
FM 11	Does the annual report include REER?	29%
FM 11	Does the annual report include weighted average INREV NAV?	38%

Insight: This section refers to the INREV NAV and to the fee metrics. The level of compliance with this section is the lowest for all the guidelines.

The NAV reconciliation guideline is generally disclosed in the investor reporting, but some of the adjustments are not always used (such as the adjustment for negative net equity for subsidiaries with non-recourse) or described (estimate and disclosure of disposal costs likely to be incurred taking account of the intended method of exit). In addition, details of the assumptions used to estimate the fair value of deferred tax and the tax effect of INREV NAV adjustments are 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 has not been very high. In the 2012 survey, only 20% of funds reported a TER, and even less (13%) a REER. These ratios increased to 40% for TER and 24% for REER in 2014, and stand at 39% for TER and 29% for REER this year. The TER ratio is sometimes seen as more relevant for some fund strategies (core funds) than for others (opportunistic funds). The REER, which measures property expenses relative to average GAV, is not widely used by fund managers, some considering it a less valuable concept, while others believe that all components of property expenses are already available in the operation statements provided to investors.

It should be noted that even where TER and REER are not disclosed in the annual reports, some fund managers use these ratios as management tools and communicate them to investors on request.

Appendix 3

Detailed cumulative compliance

Detailed cumulative compliance

Table 4: Cumulative level of compliance by INREV Guideline sections

Sections of reporting Guidelines	Compliance level											
	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	24	69%	24	69%	24	69%	24	69%	24	69%	24	69%
Content and frequency of reporting	35	100%	32	91%	18	51%	18	51%	9	26%	9	26%
General vehicle information, organisation and governance	23	66%	13	37%	11	31%	11	31%	2	6%	2	6%
Capital structure and vehicle level returns	30	86%	25	71%	20	57%	15	43%	13	37%	11	31%
Managers' report	30	86%	25	71%	18	51%	17	49%	12	34%	11	31%
Property report	31	89%	16	46%	15	43%	13	37%	11	31%	8	23%
Risk management	30	86%	19	54%	18	51%	16	46%	14	40%	12	34%
Other disclosure requirements	21	60%	13	37%	11	31%	10	29%	9	26%	9	26%
Level of overall compliance with the guidelines	**32**	91%	**17**	49%	**15**	43%	**11**	31%	**8**	23%	**2**	6%

Appendix 4

Compliance with INREV Guidelines by reporting standard and fund type

Compliance with INREV Guidelines by reporting standard and fund type

Table 5: Level of compliance with INREV Guideline sections by reporting standard and fund type

	Reporting standard		Fund type	
	Local GAAP	IFRS	Open end	Closed end
Number of funds	12	23	17	18
Fund documentation for reporting framework	71%	91%	88%	81%
Content and frequency of reporting	76%	91%	88%	85%
General vehicle information, organisation and governance	51%	73%	69%	62%
Capital structure and vehicle level returns	74%	81%	81%	76%
Managers' report	62%	88%	78%	81%
Property report	57%	80%	74%	70%
Risk management	54%	84%	76%	72%
Other disclosure requirements	36%	69%	63%	53%
Overall	**58%**	**81%**	**75%**	**72%**

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