Trends in Investor Reporting
2017

Professional Standards

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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Contents

Executive summary

Strong level of compliance among respondents

The overall compliance with the INREV Guidelines has reached its highest aggregated score this year, standing at 80% among participant members across the Reporting, Property Valuation, INREV NAV and Fee and Expense Metrics modules.

One of the key findings shows that Reporting module compliance to the INREV Guidelines has risen to 79%, notably higher compared to the 2015 survey (73%). This increase is evidence of a continued focus in standardisation of investor reporting processes and information across the non-listed fund industry. In particular, new respondents participating in the survey showed high commitment to the INREV Guidelines, with an average compliance level of 81%.

Compliance with the financial aspects of the reporting guidelines, such as fund documentation, content and capital structure, and fund level returns scored particularly well as compared to previous studies. Most quantitative information is often required by the funds' accounting standards, resulting in a high compliance level of over 90%. Other information, such as the disclosure and measurement of sustainability, still shows room for improvement with a relatively low level of compliance (55%).

Compliance for property valuation guidelines was the highest among all selected modules, reaching 97% level. This indicates that nearly all participants value their investments under fair value, with valuations mainly performed by external valuers.

Survey participants have also reported an 87% average level of compliance with the INREV NAV module, making it the second highest scoring and well adopted modules.

The fee and expense metrics guidelines, with an average of 50% of the respondents disclosing TERs and REERs in their reports, did not score particularly high. Investors value these ratios and some investment managers use the expense ratios as monitoring tools and communicate them to investors upon request.

Quarterly reports: Investors' primary source of information

The survey showed that many investment managers report the disclosures in relation to the INREV Guidelines as part of their quarterly reporting, given that these reports are more detailed and relevant for investors. Interviews with participants revealed that some investment managers will not start producing annual reports resembling the ones of listed companies any time soon and thus will continue to disclose the INREV NAV and expense metrics in their quarterly investor reports.

Sound corporate governance practices in Europe

Most investment manager organisations have multiple committees in place, eg Investment Committee, Senior management/ Executive Committee, which meet regularly. A few committees, such as the Nomination, Compensation and the Audit committee, meet on an ad-hoc basis or are generally not applicable at the investment manager level. Both investors and investment managers seem therefore to create through these internal organisational structures an effective governance framework for their investment decisions and characterisations of risk.

Risk management remains key focus area

All participants confirmed that the investment manager is a regulated entity. In 90% of responses it was confirmed that the investment manager has a dedicated risk management function. The top five risk management priorities of the investment manager organisation focus on (1) regulatory, (2) credit, (3) market, (4) operational and (5) fraud risk.

IT solutions continue to reshape asset management

Investment managers are continuously investing in IT related tools. All of the respondents indicated that they have invested, are investing, or have plans to strategically invest in information technology and/or data analytics in the future. The area where investments in technology are anticipated to occur next is data management. In particular, single source systems supporting data sharing with third-party solutions are in high demand among investment funds.

Investor reporting

Strong level of compliance among respondents

Investor reporting for non-listed real estate funds is evolving, with technological advancements transforming the way investors receive and make use of information on their investments. This study aims to provide valuable insights into current market practices around investor reporting, and the extent to which reporting complies with the requirements and recommendations of the INREV Guidelines. This year's Trends in Investor Reporting has been enhanced to include the review and analysis of four modules of the INREV Guidelines as well as practices of corporate governance and real estate business operations of the investment manager.

Overall compliance level reached a record high of 80% this year, with the reporting guidelines compliance at 79% (73% in 2015). The funds under analysis and composition of responding investment managers exhibited however changes from 2015. 40% of this year's respondents did not take part in our prior survey. New respondents scored higher than the average compliance level (81% on average) and some of the prior participants became more compliant in the past two years.

Information was received for 46 funds from 33 investment managers. As with the previous study, we used no more than two reports from the same investment manager, in order to obtain a sample representative of the whole investment manager universe. Out of the 46 funds for which information was received 41 were included in the review resulting in a total of 118 completed assessments.

The study was carried out in collaboration with PwC Luxembourg between September and November 2017. The documents received from the investment managers included annual and interim reports, and a self-assessment detailing compliance with the four modules selected from the INREV Guidelines, (1) Reporting (incl. Sustainability reporting), (2) Property Valuation, (3) INREV NAV and (4) Fee and Expense Metrics.

Data has been gathered through the INREV online Self-Assessment tool, making it easier for the investment manager to assess their compliance with the INREV Guidelines and see their preliminary results. These scores can also be shared with investors in an easy and transparent way. Additionally, the participants will benefit from tailored guidance on the reporting performance of their funds, including areas for future improvement.

In addition to the online Self-Assessment, interviews were conducted with several of the participating investment managers. A number of findings highlighted during these interviews offer interesting perspectives on trends in reporting and investment management practices across Europe.

Reporting

The guidelines around disclosure of the content and frequency of reporting, fund documentation, the capital structure and vehicle level returns show the highest level of compliance at an average of 87%. All participating funds further disclose the financing structure as well as the main events impacting the fund during and after the period. The survey also showed that 97% of respondents share quantitative data with investors via their annual report or via the INREV Standard Data Delivery Sheet (SDDS). Some prefer to keep the INREV related disclosures in the unaudited reports, such as quarterly investor packages, which is thought to be more detailed and relevant for investors.

> 'Sustainability is a vital component to our portfolio strategy. We are continually looking for ways that will help us better meet our goals'
>
> *Investment manager, UK*

The INREV SDDS standardises the information exchanged between an investment manager and an institutional investor. Managers can enter their fund details in a standardised template which can be sent to investors, thereby easing access to key valuation, financial and cash flow information. To find out more visit inrev.org/standards

Questions relating to the fund governance framework and the development of rental growth, property yield and vacancy rates exhibits weaker compliance at an average of 75%.

Table 1: Reporting module compliance

Section	Overall compliance
Fund documentation for reporting framework	88%
Content and frequency of reporting	89%
General Vehicle information, Organisation and Governance	74%
Capital structure and vehicle level returns	84%
Manager's report	87%
Property report	78%
Risk management	84%
Sustainability	55%

Sustainability highlights

Even though compliance with the sustainability guidelines scored low among the reporting sections (55% on average), increasingly, funds are discussing the vehicle's overall approach to Environmental Social Governance (ESG) in their reports (71%). Key areas of disclosure include the strategy to reduce and/or measure energy,

> 'We try to be the best and fully comply with the INREV Guidelines to position ourselves as industry leaders'
>
> *Investment manager, Netherlands*

GHG emission, water and waste as well as the targets they aim to reach. An area of improvement, however, remains the disclosure of the intensity ratios for energy and GHG emissions at property level. This ties directly to the reporting guidelines set out for furthering transparency in these subjects, as well as an increasing demand from the investment market.

The interviews made it clear investment managers consider the sustainability guidelines important for the industry to adopt. Some funds detailed that they have a sustainability team/committee in place, however other managers argue that sustainability will be difficult to implement as it is not a priority due to the lack of measurable resources to accompany its incorporation and improvement. Many managers face difficulty in measuring sustainability and when it comes to sustainable investments, investors are sometimes reluctant to pay a premium. Nevertheless, pressure from a growing number of institutional investors and the regulatory side were indicated as priorities from the investment management setting, and the increased focus on environmental, social, and corporate governance regulations will most likely increase the importance of sustainability reporting.

Table 2: INREV Guidelines compliance

INREV Guidelines	Overall compliance
Reporting Module	79%
Property Valuation Module	97%
INREV NAV Module	87%
Fee and Expense Metrics Module	62%

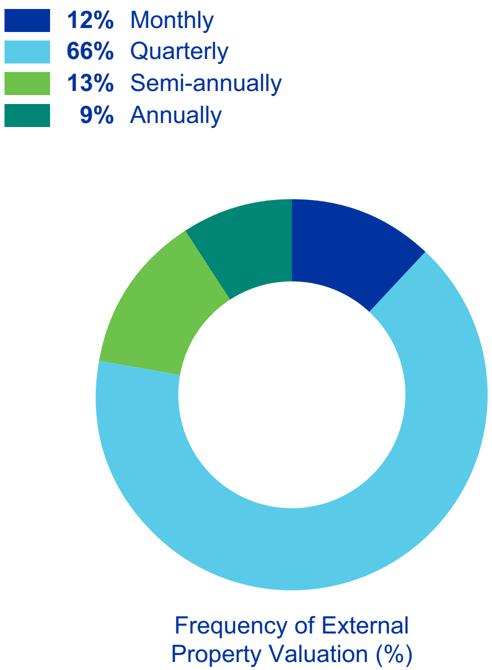
Fee and Expense Metrics

The Fee and Expense Metrics module provides a standardised calculation and disclosure of key metrics, such as Total Expense Ratio (TER) and Real Estate Expense Ratio (REER), for non-listed real estate vehicles.

As Table 2 shows, participants did not score particularly high on these guidelines (62% compliance). The main reason for

> 'Quarterly reporting already delivers a vast array of information and is becoming more valuable to investors.'
>
> *Investment manager, Germany*

Figure 1: 66% of the funds' investments are valued quarterly



this is because 50% of the respondents appropriately disclose TER and REER and even fewer document forward-looking expense ratios. Given that disclosure of these ratios are not required by any accounting framework, they are primarily disclosed at the request of investors. Nevertheless, recent years showed an increasing tendency to include these ratios within the audit scope. While still room for enhancement, some investment managers use the ratios to monitor internally their expenses and only communicate them to investors upon request.

This serves as evidence that the fee and expense metrics guidelines are applied by investment managers and will most likely continue to play an increasingly important role in fund reporting.

Property valuation

The Property Valuation module promotes best practices for valuation and aims to foster a common approach to the appraisal process. As evidenced in Table 2, compliance level for this module was the highest among all sections suggesting that predominantly all funds in the survey sample value their investments under fair value with valuations mainly performed by external appraisals. According to the survey, 66% of the funds' investments are valued quarterly while 13% semi-annually, 12% monthly and only 9% annually.

INREV NAV

This year's study evidenced that INREV NAV remained one of the most relevant calculations among industry participants. The

> 'Since the INREV Guidelines are increasingly prominent in the real estate industry, we phased out other fund specific NAVs and only publish IFRS and INREV NAV'
>
> *Investment manager, Netherlands*

> '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.'
> *INREV Guidelines, RG01*

INREV NAV module provides guidance on calculating this standardised measure of a vehicle's net asset value, which aims to give an accurate reflection of its economic value. Out of the survey participants who filled in the INREV NAV module, 87% comply with the INREV NAV guidelines. These participants tended to disclose both the INREV GAV and INREV NAV. Nevertheless, explanatory notes and a description of key assumptions are key points of further focus in order to be fully compliant with the guidelines.

While the calculation and disclosure of the INREV NAV is favoured by a fair amount of investors, we observed very limited cases where the INREV NAV is audited as part of the Notes to the annual statements. As such, many funds publish the INREV NAV in their quarterly reports rather than in their audited financial statements.

Opportunities for further compliance

As part of the interviews, investment managers were asked to provide reasons in case of non-compliance. These have been broadly categorised into the following themes:

- Required disclosures are not always relevant for closed end funds;
- Required disclosures were considered adding value but not necessarily required by investors;
- Required disclosures were regarded as relevant and will be incorporated in future reporting.

> ‘The INREV Guidelines help us to pass the message of our performance and compliance results to investors in a trans-parent way.’
>
> *Investment manager, Portugal*

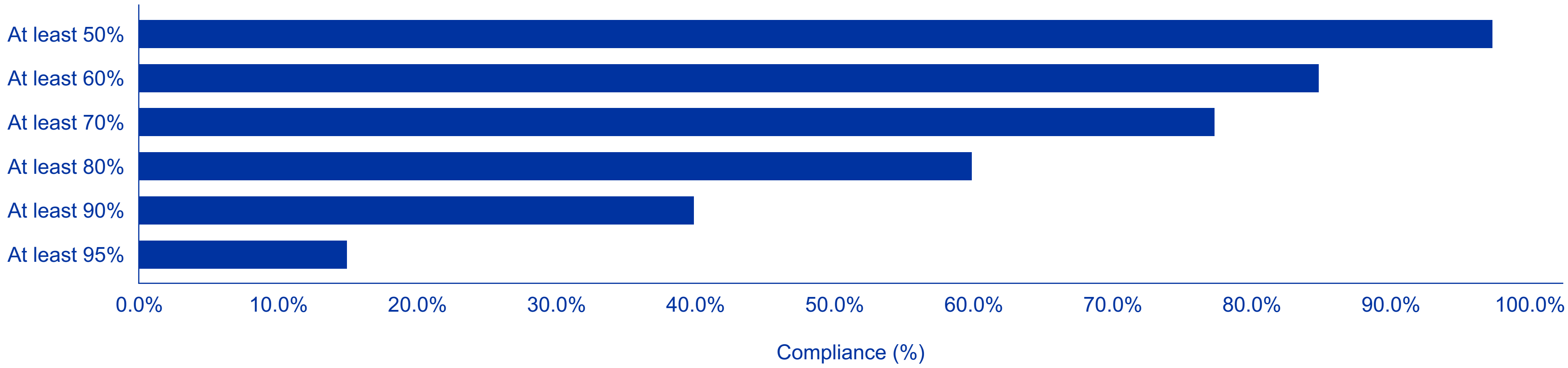
While the INREV Guidelines are helpful to give investment managers an integrated set of best practices and recommendations when investing in real estate, some investment managers believe that the required disclosures, particularly for INREV NAV, are not always relevant for closed end funds. Some argue that the INREV Guidelines serve more as a gap analysis and should complement their internal model, rather than being required to be followed to claim INREV compliance.

The majority of participants, however, are strong advocates of the INREV Guidelines and aim to be fully compliant in the future.

As already stated above, the overall average compliance with the INREV Guidelines is relatively high, with some sections performing better than others. Within each section of the INREV Guidelines, however, several requirements remain less complied with.

Advice for better compliance, given in Appendix 2, was added to this year’s study in order to support investment managers in achieving better compliance. We believe that full compliance with INREV Guidelines is a reachable goal and this study will help investment managers achieve it.

Figure 2: 98% of funds complies with at least 50% of the INREV Guidelines



The interviews further confirmed that investment managers consider the INREV Guidelines to be an important framework in their reporting. The guidelines are often seen as an objective rating tool for comparison and setting of individual targets.

Figure 2 shows the cumulative level of compliance with the guidelines for the selected modules. More than 98% of the sample comply with at least 50% of the guidelines and 38% comply with between 50% and 80%, while 15% of the participants comply with more than 95% of the guidelines.

Notably, the cumulative level of compliance improved as well compared to the 2015 survey, where we observed that only 91% of the sample complied with at least 50% of guidelines and only 6% exceeding the 95% compliance threshold.

‘We plan to get as close as we can to full compliance with the INREV Guidelines’

Investment manager, Luxembourg

Investment Manager Profile

This year, several other topics, in addition to the assessment reviews of the INREV Guidelines, were added to the scope of the survey. These topics presented below portray an ongoing evolution of the investment management industry and investor reporting cycle in Europe.

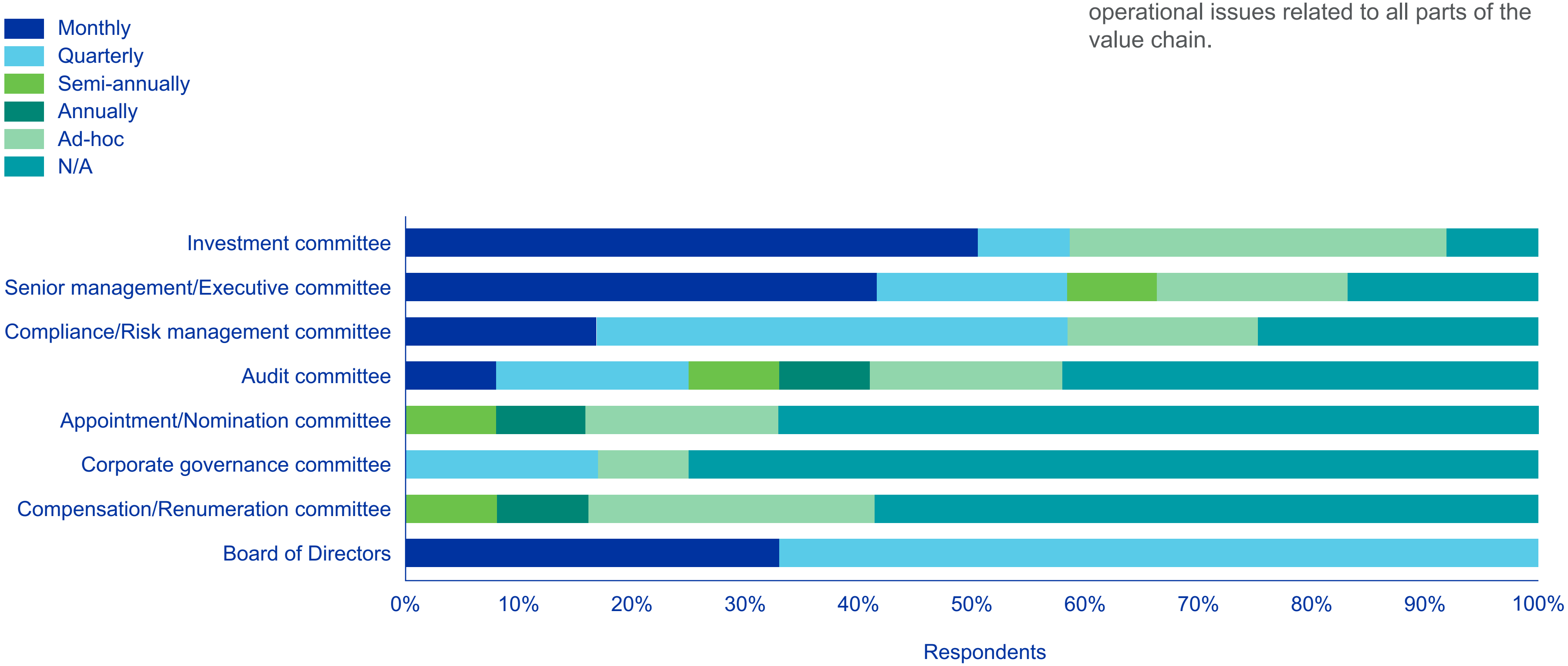
Sound corporate governance practices in Europe

One of the key focus areas of this year's survey was fund governance, and in particular, which committees and board functions are part of the investment manager organisation, and how frequently they meet to ensure that internal controls are in place.

As shown in Figure 3, most investment manager organisations show strong corporate governance implementation at management level. While main committees and the board of directors meet regularly (monthly to quarterly meetings), other committees, such as the nomination, compensation and the audit committee meet on an ad-hoc basis or are not applicable at the investment manager level.

Next to the committees listed in Figure 3, other committees include valuation committee (mainly quarterly meetings), sustainable committee (ad-hoc meetings) and the management team of the investment manager (mainly bi-weekly meetings) focused on operational issues related to all parts of the value chain.

Figure 3: Committees and boards as part of the investment manager organisation



Based on the survey, the size of the Board of Directors in almost all cases remains below 8 people, consisting of corporate and independent directors.

Participants reported that 25% of their Board of Directors are female, and further emphasised gender equality as an ongoing focus area.

Risk management remains a key focus area

In terms of risk management, findings suggest that there is no “one-solution fits all” as investment managers seek first to understand their particular risk exposures in order to monitor them adequately. All investment managers confirmed that the investment manager is a regulated entity. In 90% of the time, the investment manager has a dedicated risk management function.

As Table 3 illustrates, a variety of risks have emerged and are already in the eyes of many investment managers. These suggest that there is still some lingering consideration of potential instability and its ties to the regulatory tides of the European market.

> ‘We are very well automated, and this automation ensures a level of accountability that is appreciated by our investors’
>
> *Investment manager, Luxembourg*

Table 3: Top five risks identified by investment managers

Risks
1. Regulatory
2. Market
3. Credit / counterparty
4. Fraud
5. Operational

IT solutions continue to reshape asset management

The vast majority of the respondents have already invested, are investing or have plans to strategically invest in information technology and/or data analytics in the future. Our survey further emphasises the trend towards outsourcing of back office functions. While in-house and outsourced solutions are mainly equally split, many investment managers confirmed that they are planning to continue to outsource administrative functions to a third party. Main advantages of outsourcing include independence through the separation of duties, transparency between the manager and investors, standardisation of reporting as well as technology solutions. Primary services outsourced across the managed investment funds include accounting (both fund and property level as well as financial statements preparation) and regulatory services (AIFMD reporting and other reporting).

Information technology and data analytics are currently inherent elements of fund management and are indispensable in the decision-making process. IT-related services, such as project management, technical support or cyber security can be found both in-house (45%) and outsourced (55%) . While 8% of the investment manager participants already have a Chief Technology Officer seated on the Executive or on the Investment Committee, 17% of the respondents are strongly considering it.

The survey and the subsequent interviews showed that investment managers most often use Yardi, SAP and Microsoft Excel. Other IT solutions such as MRI and ARGUS were cited several times too. The use of bespoke IT tools is not uncommon, as almost 30% of the correspondences were in favour of it.

The most anticipated area of future investment in technology will occur in data management related fields. The survey and corresponding interviews found that funds are facing challenges on how to automatically integrate various software in use and third-party data. IT improvements in other areas such as risk management, portfolio management, HR system or cyber security are on the agenda of less than 50% of the sample.

Conclusions

Investor reporting remains a valuable tool for communicating information and insights about non-listed real estate investments as investors are looking to gain more control over the performance of their portfolios, allocation strategy and risk exposure.

This study has shown that investment managers consider the INREV Guidelines as a key reporting and governance framework. These requirements and best practices also help them compare and evaluate their reporting with other investment funds. The overall approach among investment managers, as evidenced by the strong compliance this year, is to get as close as possible to full compliance with the INREV Guidelines.

One of the key findings of this study is that investment managers notably recognise the need for good corporate governance and have various committees and boards in place at investment manager organisation level, which meet regularly. These structures are diversifying to adapt to the changing characteristics of the industry in order to approach considerations such as security, risk, and sustainability.

Risk management is becoming an intrinsic part of the internal organisation processes as political instability and its impact on regulatory initiatives in the European market drive development of dedicated risk management functions and programs.

This survey further emphasises the trend towards outsourcing of back office functions as many investment managers confirmed that they are planning to continue to outsource administrative functions to a fund administrator in order to promote transparency, independence and standardisation within their funds.

Investment managers are focused on keeping pace with the evolving technology as the vast majority have invested, are investing, or have plans to strategically invest in information technology and/or data analytics in the future. The most likely area where investments in technology will occur in the near future is finding single-source solutions to facilitate data management internally and with third parties.

Appendices

Appendix 1 – Review Approach and 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 INREV Guidelines. In addition, it is important to receive ongoing insight and 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:

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

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

The review focused on each funds' individual investor reporting format, which typically comprises an annual report and to what extent such reporting complies with the relevant parts of the INREV reporting guidelines.

Results from this year's review of 2016 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 Sustainability. This year, the scope has also included INREV NAV, Fee and Expense Metrics and Property Valuation modules.

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 of the 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.

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 investment managers. Some financial reports are published in a free form in which investment 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 October and November 2017 and comprised the following steps for each fund:

- Investment managers delivered their main investor reporting documents, for example, the fund's 2016 annual report, fourth quarter 2016 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 selected INREV Guidelines;

- Investment managers have been requested to prepare a Self-Assessment. Where relevant, the PwC Luxembourg assessment was compared to the Self-Assessment prepared by the investment manager.

- When no reporting changes occurred during the year, investment managers were allowed to roll forward their Self-Assessment performed on 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 fund governance, sustainability, technology investments, and the realities of dealing with changing investor demands;

- Investment managers will be given individual feedback for their funds shortly after the publication of this review. This will comprise their compliance scores within the revised INREV reporting guidelines.

Sample

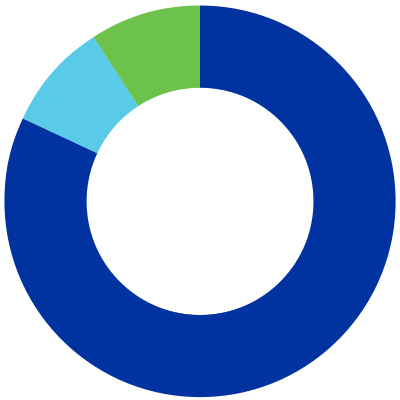
The INREV Universe comprises 447 vehicles as of 30 November 2017. For the purpose of this review, INREV sent requests to 185 investment managers (183 in 2015), to participate in this survey, and to submit their latest annual report and other reports if applicable.

Information was received from 33 investment managers, with reports for 46 funds. The number of investment managers responding remained stable as compared to the 2015 study (47 funds from 26 funds managers were received in 2015) resulting in 118 overall assessments completed and reviewed. Among the documents received from investment managers were annual and (sometimes) quarterly reports as well as a self-assessment checklist assessing compliance with each of the guidelines.

In order not to overweigh some investment managers over others in our sample, we used no more than two reports from the same investment manager to obtain a sample representative of the whole investment manager Universe.

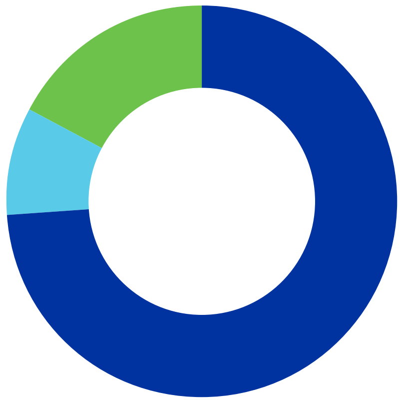
Figure 4: Fund style as a proportion of the population

82% Core
9% Opportunity
9% Value-added



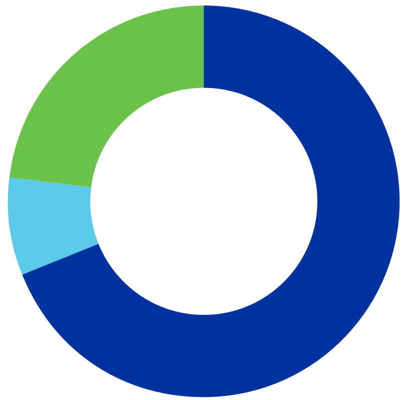
Fund Style 2017 study

74% Core
9% Opportunity
17% Value-added



Fund Style 2015 study

69% Core
8% Opportunity
23% Value-added



Fund Style 2014 study

In some instances, the number of responses received for the additional guidelines modules (included in this year's survey) deviated from the overall participants sample as data submission has been voluntarily. The sample by module included the following: 41 Reporting module assessments, 25 Property Valuation module assessments, 25 INREV NAV module assessments, 28 Fee and Expense Metrics module assessments.

The sample of 41 funds represents 9% of the total INREV Universe (447 different funds), which is an increase compared to 7% (reviewed funds of the total INREV Universe) in 2015. As Table 4 shows 44% of the vehicles within our sample are domiciliated in Luxembourg, 25% in the Netherlands, 17% in the UK, 4% in Scandinavia, 7% in Jersey and 2% in Ireland.

Figure 4 shows the sample for this survey in terms of fund style in comparison with the sample used in previous years' review. The sample includes 8% more core funds than the 2015 survey and 13% more than the 2014 survey. While the number of opportunity funds remained fairly stable, the sample size of value-added funds decreased over the past years.

Table 5 shows the breakdown of respondents for the 2017 study by fund style and strategy.

Table 4: Number of respondents by fund style and reporting standard

			Accounting Standards		Total	
Structure	**Manager Defined Style**	**Domicile**	**IFRS**	**Local GAAP**	**#**	**%**
Closed end	**Core**	Luxembourg	6		6	15%
		Netherlands	2		2	5%
		Jersey	1		1	2%
		United Kingdom	1	1	2	5%
	Opportunity	Jersey		1	1	2%
		Sweden		1	1	2%
		United Kingdom		1	1	2%
	Value-added	Luxembourg	4	1	5	12%
		United Kingdom	1	1	2	5%
Open end	**Core**	Ireland	1		1	2%
		Jersey	1		1	2%
		Luxembourg	4	3	7	17%
		Netherlands	6	2	8	20%
		Norway		1	1	2%
		United Kingdom	1	1	2	5%
	Total	#	28	13	41	100%
		%	68%	32%	100%	

Figure 5: Fund style and reporting standard

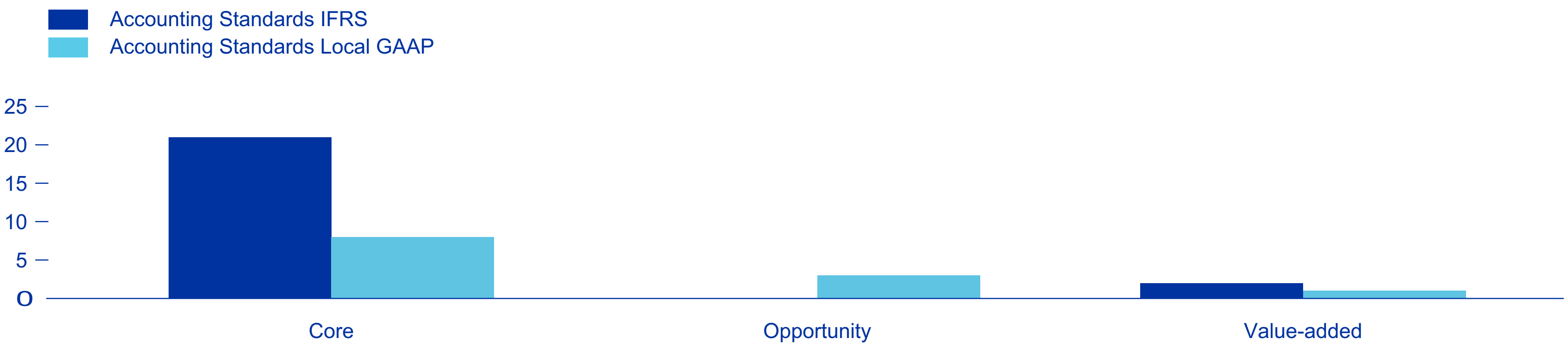


Table 5: Number of respondents by fund style and strategy

		Fund Strategy						
		Germany	The Netherlands	Portugal	UK	Others	Multi-country	Overall
Core	Open end	1	8		3	1	7	20
	Closed end			1	3		7	11
Opportunity	Open end							0
	Closed end	1					2	3
Value-added	Open end							0
	Closed end				1		6	7
Overall		**2**	**8**	**1**	**7**	**1**	**22**	**41**

Appendix 2 – Compliance with INREV guidelines by section

Fund documentation for reporting framework

Purpose: This section of the reporting module of the INREV Guidelines sets out the high-level basis for a fund's reporting framework, and defines key terms included within the reports.

Overall Compliance level: 88%

Insight: This section was generally well complied with by most investment managers. A few discrepancies were however seen among the respondents regarding the interpretation of the guidelines RG 1 and RG 2. While managers usually provide at least one interim report to investors in addition to the annual report, some reports lacked the definition of terms or the calculation methodology of KPIs.

According to our interviews with fund managers, the preparation basis, frequency and timing of the annual reports are considered "static", as they belong to the funds' constitutional documents and will therefore be disclosed in the annual report only when there are significant changes.

Advice for better compliance: When the basis, frequency and timing of reporting is stated in the funds' constitutional documents, it is suggested that fund managers also make reference to this document in their ongoing reporting. When terms or KPIs are applied and disclosed in the reports, a definition of these terms is recommended to be included in the respective report.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 1	Does the vehicle documentation include the basis, the frequency and timing of the preparation of the annual/interim reports?	95%
RG 2	Are terms or KPIs not already included in definitions defined in the annual report?	82%

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: 89%

Insight: This section shows an overall compliance level of 89%, which is the highest amongst the Reporting Module sections. It can also be noted that 92% of responding funds disclosed sufficient information to comply with at least 80% of the 'Content and frequency of reporting' section requirements. Even though the overall compliance for this section is high, compliance with respect to RG 9, relating to the disclosure of the level of compliance on a module-by-module basis, is as low as 35%. According to fund managers, the reasons for low compliance with RG 9 are twofold. Firstly, fund managers are not always fully aware of how to disclose this guideline in their reports. Secondly, investors have so far not shown strong interest in receiving information regarding the compliance to INREV guidelines on a module-by-module basis.

Advice for better compliance – RG 9: In order to comply with RG 9, fund managers simply have to list the INREV Guidelines modules and indicate their degree of compliance to the corresponding modules.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 9	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.	35%

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: 74%

Insight: The reason for a compliance level below the overall average reporting module compliance of 79% is primarily due to RG16 and RG17. The low compliance level can be explained by the fact that only a few fund managers have fully adopted the INREV corporate governance best practices. It is, however, interesting to note that 54% of the fund managers disclose the level of compliance with their own framework. The interviews gave us additional insight on this point as some fund managers prepare, in addition to their regular investor reporting, a compliance report that is presented to investors once a year during the shareholders meeting.

Advice for better compliance – RG 16 & RG 17: We recommend fund managers to disclose information regarding the compliance to their corporate governance framework. We also advise fund managers referring to and considering adoption of the 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.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 16	Does the annual report include the level of adoption of INREV corporate governance best practices?	31%
RG 17	Does the annual report include a description of the level of compliance with the corporate governance framework defined in the fund document-ation?	54%

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, its flows i.e. subscriptions/calls, redemptions/distributions etc., returns and the impact of fees on performance.

Overall Compliance level: 84%

Insight: The high compliance level of 84%, is explained by the fact that most of the requirements, such as drawn and undrawn commitments, share class NAV's and distributions made during the year constitute information usually presented in the audited financial statements.

With a level of compliance standing at 75%, RG 23 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 26 has a low level of compliance mainly due to a missing summary of the fee structure of the fund. While most fund managers disclose the key fee charges incurred during the year as a figure in the reports, not all disclose the direct impact of those fee structures on returns.

Advice for better compliance – RG 23: If fund managers believe that finding a relevant benchmark or indices for their fund is not possible, we recommend to compare the fund's performance against its targeted return.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 23	Does the annual report summarise and comment on key investor returns and related metrics including comparison with targets, benchmarks and relevant indices?	75%
RG 26	Does the annual report summarise how the fund's fee structure impacts the fund's capital structure and fund level returns?	69%

Managers' report

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

Overall Compliance level: 87%

Insight: The Managers' Report section of the reporting guidelines concentrates on information and a 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. The overall compliance to this section amounts to 87%, above the overall reporting module average of 79%. It can also be noted that 74% of responding funds disclosed sufficient information to comply with at least 80% of the reporting guidelines requirements.

With a 50% compliance level, RG 32 is the guideline with the lowest score within this section. Most fund managers disclose and discuss the performance of the current period in comparison to the previous year but not to the last five years.

Advice for better compliance – RG 32: Compliance to RG 32 requires that fund managers disclose and discuss current fund's performance not only to the prior year but to the last five years. This would allow investors to have a better view and understanding of the long-term performance of the fund.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 32	Does the annual report discuss the current period performance in the context of the last five years?	50%

Property report

Purpose: This section of the reporting 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: 78%

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 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, showing 89% compliance rate. The compliance with the other property related information (developments and property value, concentration and occupancy of properties, and the impact of operating costs and capital) reached 65% on average.

The investors' reports disclose the valuation methods and assumptions as well as the appraiser's information in 67% of the cases, on average. However, only 38% of the respondents are disclosing enough information regarding the assumptions taken in the valuation in respect of disposal scenarios, capital expenditures and transfer taxes.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 41	Does the annual report describe specific assumptions used in the property valuations such as assumed disposal scenarios? assumed capital expenditure? treatment of transfer taxes?	51%

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 vehicles, and the financing structure at both levels.

Overall Compliance level: 84%

Insight: Compliance with this section is slightly above the overall compliance average. This is mainly explained by the fact that 95% of the respondents disclose principal risks and exposures faced by the vehicle as well as the vehicle's overall financing structure.

While almost all funds have embedded risk management frameworks and as mentioned above, they only discuss major risk exposures in their reports, the level of compliance with risk management policies being often neglected in the reports. In most cases, our sample did not show any specific breaches for the period under review, however, where breaches occurred, the funds usually will mention them in their report, in particular in their compliance report. Remedial plans on the other hand are not always addressed.

Advice for better compliance – RG 58: In line with the advice for corporate governance, we recommend fund managers to disclose information regarding the compliance to their risk management policies and procedures as well as their remedial plans if breaches occur.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
RG 58	Does the annual report describe the current level of compliance with risk management policies?	65%
RG 58	Does the annual report describe and comment on specific breaches and remedial plans?	79%

Sustainability

Purpose: The guidelines consist of mandatory sustainability reporting requirements and best practice recommendations. This section of the INREV Guidelines includes also references to other industry standards which are implemented in the non-listed real estate industry; GRESB, GRI and EPRA.

Overall Compliance level: 55%

Insight: Compliance with this section was the lowest among all sections. This is mainly explained by the fact that only 61% of the sample complies with at least 50% of the guidelines.

While more and more funds disclose their approach towards sustainability in their reports, many do not discuss in detail nor specifically measure sustainability. A handful of fund managers stated during the interviews that they do not have the tools and platform to quantify sustainability. Some argue that disclosure is not requested by their investors and as such disclosure with current legislation in relation with ESG issues is not a high priority at the moment. Those who report on sustainability usually include absolute environmental data, such as energy, GHG emissions, water or waste but often fail to present the respective intensity ratios and their future sustainability targets.

Advice for better compliance: We encourage fund managers to disclose information regarding ESG issues and start measuring sustainability and the ethical impact of their investments as recommended by the INREV sustainability reporting guidelines.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
ESG-LTS 1.2	Do you disclose a clear description of the vehicle's approach for ensuring compliance with current legislation in relation with ESG issues?	60%
ESG-ENV 1.1	Do you disclose the intensity ratios for energy and GHG emissions per property type?	30%

INREV NAV

Purpose: INREV NAV reflects a more accurate economic value of the investment units based on their fair value of the underlying assets and liabilities, as at the balance sheet date, and as adjusted for the spreading of costs that will benefit different generations of investors.

Overall Compliance level: 87%

Insight: Out of the total sample under review, 21 funds submitted their assessment regarding their compliance with the INREV NAV guidelines. The overall compliance level of 87% proves that funds across Europe consistently calculate and disclose an INREV NAV.

Almost 80% of the funds which report INREV NAV correctly adjust their accounting NAV. Major adjustments observed include the capitalisation and subsequent amortisation over five years. Many fund managers highlighted the importance of the INREV NAV during the interviews, especially when it comes to comparison to other funds as well as the need for overall harmonisation of the real estate fund industry.

Advice for better compliance: The importance of the INREV NAV is increasing, and as such we advise all funds to make relevant adjustments to their accounting NAV and start disclosing the INREV NAV.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
NAV04	Has the vehicle's NAV been adjusted with regard to set-up costs and acquisition expenses? And have they been amortised over 5 years?	76%

Fee and expense metrics

Purpose: Fees and costs should be measured in line with the principles defined under INREV NAV and INREV GAV. TER and REER should be disclosed annually, at minimum.

Overall Compliance level: 62%

Insight: The INREV Total Expense Ratio (TER) and Real Estate Expense Ratio (REER) metrics have been historically less adopted by investment managers. In the 2012 survey only 20% of the funds reported a TER, and even less, 13% a REER. These ratios increased to 39% for the TER and 29% for the REER in 2015. and stand at 52% for the TER and 58% for the REER this year. The TER ratio is seen more relevant for core fund strategies than for value add or opportunistic funds. The REER that provides the measure of the property expenses over the weighted average GAV is becoming more used by fund managers. However, some still consider it a less valuable concept as the majority of constituents of the property expenses are already available in the operation statements and available to investors.

It is worth mentioning that in cases where the TER and REER are not disclosed in the annual reports, some fund managers use the ratios as a managing tools and communicate them to investors upon request.

Advice for better compliance: We advise investment managers to compute both TER and REER and include the ratios in their ongoing reporting regardless of investor requests. As evidenced by our survey, there is increasing interest in including these ratios within the audit scope.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
FM11	Does the investment manager disclose annually an historic TER, excluding/including amounts paid out or accrued for performance?	52%
FM11	Does the investment manager disclose annually a historic REER?	58%

Property valuation

Purpose: Property valuations should be reliably, consistently and independently arrived at in compliance with regulations, undertaken by a professionally qualified valuer and transparently reported to investors.

Overall Compliance level: 97%

Insight: Reflected in a record score of 97%, the property valuation guidelines have been very well incorporated within the funds' reporting. In line with the guidelines, funds appoint an independent external valuer to estimate the fair value of their investments in accordance to the International Valuation Standards (IVS). The questionnaire as well as the subsequent interviews confirmed that the valuation usually results in a single number and deviations from property valuations as determined by the external property valuers are rare. While the appointment and re-appointment of the external valuer is reviewed at least every three years, some fund managers fail to disclose this in any of their reporting.

Advice for better compliance: We advise the funds to not only apply the guidelines, but also disclose the appointment and rotation of the external valuer as well as the fact that valuation fees of the external valuer are agreed independently of the outcome of the valuation.

Noteworthy Requirements:

INREV Guideline	Survey question	Compliance
PV04	Is the appointment or re-appointment of the external valuer firm reviewed on a regular basis, at least once every three years?	95%

Appendix 3 –
Detailed cumulative compliance

Table 6: Cumulative level of compliance within the Reporting Module

Sections of Reporting Guidelines	Compliance level											
	Above 50%		Above 60%		Above 70%		Above 80%		Above 90%		Above 95%	
	# of funds	%	# of funds	%	# of funds	%	# of funds	%	# of funds	%	# of funds	%
Fund documentation for reporting framework	38	97%	31	79%	31	79%	31	79%	31	79%	31	79%
Content and frequency of reporting	39	100%	39	100%	38	97%	36	92%	17	44%	14	36%
General Vehicle information, Organisation and Governance	31	82%	29	76%	26	68%	14	37%	10	26%	10	26%
Capital structure and vehicle level returns	36	92%	33	85%	28	72%	26	67%	23	59%	20	51%
Managers' report	39	100%	36	92%	34	87%	29	74%	20	51%	15	38%
Property report	35	90%	33	85%	29	74%	21	54%	16	41%	13	33%
Risk management	37	95%	35	90%	34	87%	27	69%	19	49%	16	41%
Sustainability	19	61%	15	48%	14	45%	14	45%	8	26%	5	16%
Overall compliance with Reporting guidelines	37	95%	33	85%	29	74%	24	62%	15	38%	6	15%

Table 7: Cumulative level of compliance within the analysed modules of the INREV Guidelines

Modules of the INREV Guidelines	Compliance level											
	Above 50%		Above 60%		Above 70%		Above 80%		Above 90%		Above 95%	
	# of funds	%	# of funds	%	# of funds	%	# of funds	%	# of funds	%	# of funds	%
Reporting	37	95%	33	85%	29	74%	24	62%	15	38%	6	15%
INREV NAV	22	100%	19	86%	19	86%	15	68%	12	55%	12	55%
Fee and Expense Metrics	15	63%	13	54%	12	50%	10	42%	7	29%	4	17%
Property Valuation	22	100%	22	100%	22	100%	21	95%	20	91%	15	68%

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