Trends in Investor Reporting
2019

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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Executive summary

Record levels of compliance

The 2019 study results show very high levels of compliance with the reporting standards of the INREV Guidelines. This is due to the increased awareness and adoption of the INREV Guidelines across investment vehicle processes and in reporting to investors. With an aggregated average compliance of 85% across the Reporting, Property Valuation, INREV NAV and Fee and Expense Metrics modules, this year's study illustrates a considerable improvement compared to the 2017 study (80%). More specifically, there is an obvious trend among non-listed real estate vehicles towards more detailed and comprehensive investor reporting releases, through gathering relevant and useful information in their reporting packages.

The average level of compliance for the Reporting module reached 85%, with the Manager's Report section, showing an overall compliance of 92%. This illustrates that the majority of investment managers share explicit and detailed information with their investors when it comes to significant events that have an impact on their business. Compliance with the Sustainability Reporting section reached 73%, notably higher than in 2017 study (55%). This considerable improvement indicates a change in mindset of participants who are switching focus to environmental actions and that ESG issues are becoming increasingly important in the strategy, processes and considerations of the committees and boards they have in place.

The INREV NAV module compliance reached new highs at 94%. As evidenced in their reporting packages, most investment vehicles adopted INREV NAV within their policies, being very thorough with the disclosures presented in the financial statements. Considering investors' appetite and need for specific, clear and comprehensive information, investment managers show clear commitment to meet these expectations.

The compliance level for the Fee and Expense Metrics module reached 71%. Although most respondents have already adopted the INREV TER and REER, there is still room for improvement with respect to the level of fee disclosure for this module and what is reported to investors.

The best adopted module by all participants is Property Valuation. As with previous years, the level of compliance for this module was the highest at 98%. This indicates that the valuation process is carefully set, monitored and its results are properly disclosed and integrated in the reporting packages to investors.

Sound corporate governance frameworks across Europe

Most investment managers have committees and boards (Board of Directors, Investment Committee, Senior Management Committee and Risk Management Committee) which meet regularly, from monthly to quarterly.

Compared to the 2017 study, there is a higher importance placed on the Risk Management and Audit committees, with almost half of participants in this year's study having quarterly meetings in place. Nevertheless, some committees, such as Nomination, Corporate Governance and Compensation committees still meet on an ad-hoc basis or are not applicable at the investment manager level. In addition to the predefined answers, most of investment managers also mentioned other committees established within their organisation, among which the most nominated ones are the Advisory, Valuation and Sustainability committees.

Change in focus for risk management

All investment managers are a regulated entity with 94% of participants having a dedicated risk management function. When analysing the five most important priorities in terms of risk management, there is a small change in focus as compared to the 2017 study. The top five risk management priorities of the investment manager organisation are now ranked as follows:

1. regulatory (2017: no change),
2. market (2017: credit),
3. operational (2017: market),
4. liquidity (2017: operational),
5. credit / counterparty (2017: fraud).

Another point worth mentioning is the importance that cyber security starts gaining in the views of investment managers, as it is one of the priorities considered after the top 5 mentioned, together with tax.

Technology, outsourcing and system globalisation

Investment managers are continuously investing in technology, online tools and digital solutions. All respondents indicated that they have or intend to invest in information technology and/or data analytics in the future, especially in the areas of cyber security and boosting big data capabilities and visualisation (more than 60% of the respondents).

Integrated digital platforms supporting data sharing with third-party solutions are particularly in high demand among investment vehicles. Enhancement of current software solutions and outsourcing of back office operational activities were also found to be gaining importance for most participants. Primary administrative services outsourced include accounting (both vehicle and property as well as financial statements preparation) and regulatory services (AIFMD depositary and other local country specific filings). The increased use and capability of software solutions illustrate a shift in direction and mindset of investment managers towards a more digitalised environment.

Investor reporting rises to higher levels

About the survey

INREV members can participate in the Trends in Investor Reporting study every two years. Participants receive individual feedback on their reporting performance while contributing to the overall results and market averages. This year's sample comprises 42 funds (41 in 2017) from 31 investment managers (33 in 2017). For details on the survey and the review approach please see Appendix 1.

Very strong level of compliance among respondents

This year's overall compliance level reached a record high of 85% overall, up from 80% in 2017. The total compliance with the Reporting guidelines is at 85%, up from 79% in 2017, showing an increased aptitude among investment managers to comply with the INREV Guidelines. This reflects a stronger commitment to meet their investors' needs in terms of comparability and transparency of information and to facilitate their decision-making process through relevant disclosures.

When looking at the common sample across the 2017 and 2019 studies, the overall compliance score of the INREV Guidelines under review was the same (85%) as the score achieved by the total sample size. The common sample comprises 25 vehicles from 19 investment managers.

Reporting

The guidelines on disclosure with regards to the Manager's Report section experienced the highest level of compliance at an average of 92%. All funds further disclosed their financing structure and the main events impacting their operations during and after the reporting period. Questions relating to the governance framework and the development of rental growth, property yield and vacancy rates in the Property Report section of Reporting module exhibited a slightly lower compliance at around 80%. For more details including year-on-year compliance evolution for the Reporting module and comparison with prior studies please see Appendix 3.

Table 1: Reporting module compliance

Reporting module	Overall compliance
Fund documentation for reporting framework	88%
Content and frequency of reporting	91%
General vehicle information, organisation and governance	80%
Capital structure and vehicle level returns	87%
Manager's report	92%
Property report	79%
Risk management	88%
Sustainability	73%

ESG highlights

Compliance with the Sustainability Reporting section of the guidelines was 73% marking a notable increase from the 55%, that was recorded in the 2017 study. The increase in Environmental Social Governance (ESG) disclosure shows that most participants started to report objectives and/or their strategy on ESG.

On the other hand, there is still room for improvement on disclosures and more detailed targets, especially regarding intensity ratios for energy, greenhouse gas emissions, water and waste. This highlights a further need to increase awareness and transparency on these subjects.

'Huge variation between what investors want…for example Asian investors do not put their main focus on sustainability or ESG guidelines. On the other hand, Dutch investors are critical and potentially willing to sacrifice financial gains for ensuring sustainability in their portfolios'

Investment manager, UK

More insight with respect to ESG factors was gathered during the interviews, where participants stated that ESG issues are of high importance in the strategy, processes and considerations of the committees and boards they have in place. Investment managers confirmed that compliance with ESG guidelines and best practices are either reflected within quarterly reporting or in separate sustainability releases issued to investors. In all cases investment managers declared ESG as a current focus area for their vehicles, striving to provide relevant information to investors and organisations assessing sustainability performances such as GRESB on ESG aspects of their managed portfolios.

In addition, interviews showed increased awareness and a deeper focus on other ESG issues, such as climate change and its associated risks. Social responsibility and impact investing are also becoming areas of great interest and appear to be very well considered by participants in their future products and strategy.

> ‘Sustainability and social responsibility are very high topics on the agenda, on every Board and executive meeting.’
>
> *Investment manager, Nordics*

INREV NAV

This year’s study proved that INREV NAV remains one of the most relevant module of the INREV Guidelines among participants. The INREV NAV module provides guidance on calculating a standardised measure of a vehicle’s net asset value, which aims to give a more accurate reflection of its economic value.

Based on the reviewed assessments and the interviews, an increasing number of respondents consider these guidelines as being particularly useful for determining and disclosing their fund trading NAV[1], a fact which is supported by the adoption and very high compliance level recorded for this module. Some investment managers disclose the INREV NAV in their annual reports (even if this is not necessarily a requirement of the accounting standards), while others include it in their quarterly reporting to investors.

Fees 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 scored 71% on average, an improvement from the 62% scored in 2017. Nevertheless, this module is less complied with when compared to the other modules. This is mainly due to the fact that there are few participants disclosing both the TER and REER along with their components (66% and 70% respectively), while some others miss certain disclosures related to historical or forward-looking ratios. This score was also explained in more detail during the interviews, as some participants mentioned that currently this is one of the modules less addressed internally. Nonetheless, they also confirmed their willingness to improve and focus on this matter in the future to increase compliance levels with the INREV Guidelines.

Table 2: INREV Guidelines compliance

PROPERTY VALUATION	**98%**
INREV NAV	**94%**
REPORTING	**85%**
FEE AND EXPENSE METRICS	**71%**

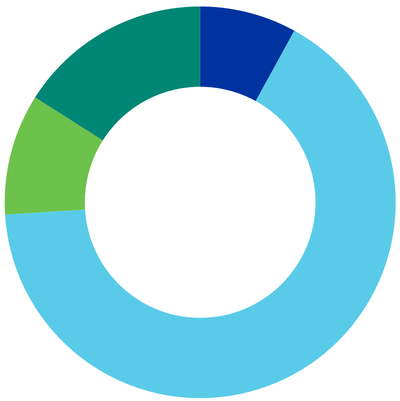
[1] INREV NAV was not originally developed as a pricing methodology and additional adjustments may be considered to make it more relevant for pricing purposes

Property valuation

This module promotes best practices for valuation and aims to foster a common approach to the appraisal process of the portfolio. As Table 2 shows, compliance level for this module was the highest among all sections showing that all participating funds value their investments under the fair value method, with valuations mainly performed by external appraisers. According to the results, 66% of the funds' investments are valued quarterly,16% annually, 10% semi-annually and only 8% monthly.

Figure 1: Frequency of external property valuation

8% Monthly
66% Quarterly
10% Semi-annually
16% Annually



Quarterly report: Investors' fundamental source of information

As was the case in 2017, this year's review and interviews illustrate investment managers' preference for disclosing detailed and granular information within their quarterly reports rather than including it in the annual financial statements. Participants state that certain kind of disclosures (eg.INREV NAV reporting, portfolio details and sensitivity analysis with respects to rental growth or disposal scenarios) are more relevant on a quarterly basis, as part of their management reporting, rather than included in the annual report prepared in line with accounting standards frameworks. 95% of investment managers disclose quantitative data either in the INREV SDDS or interim reports.

> 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

Opportunities for further compliance

During the one-to-one interviews held with the investment managers, one of the questions raised was about the reasons for non-compliance. One of the reasons was that not all the guidelines and disclosures are currently required by investors, or they are not applicable for their fund style and structure. On the other hand, all investment managers reiterated during interviews that their aim is to reach as high as possible levels of compliance with the INREV Guidelines, concluding that the participants who didn't score particularly high will make efforts to increase their adoption of the guidelines in the future.

Another point worth mentioning is with respect to annual reports versus interim or quarterly reports. A common view shared among participants was that any information disclosed in the interim reports might not necessarily be disclosed once again in the annual financial statements, considering that certain disclosures have already been made available to investors, thus there is no need for duplicating it in the financial statements.

Nevertheless, taking everything into account, the overall average compliance with INREV Guidelines is very strong and shows an increase from the prior 2017 study. For more detailed insights, deeper analysis across sections and suggested areas of improvement, please refer to Appendix 2.

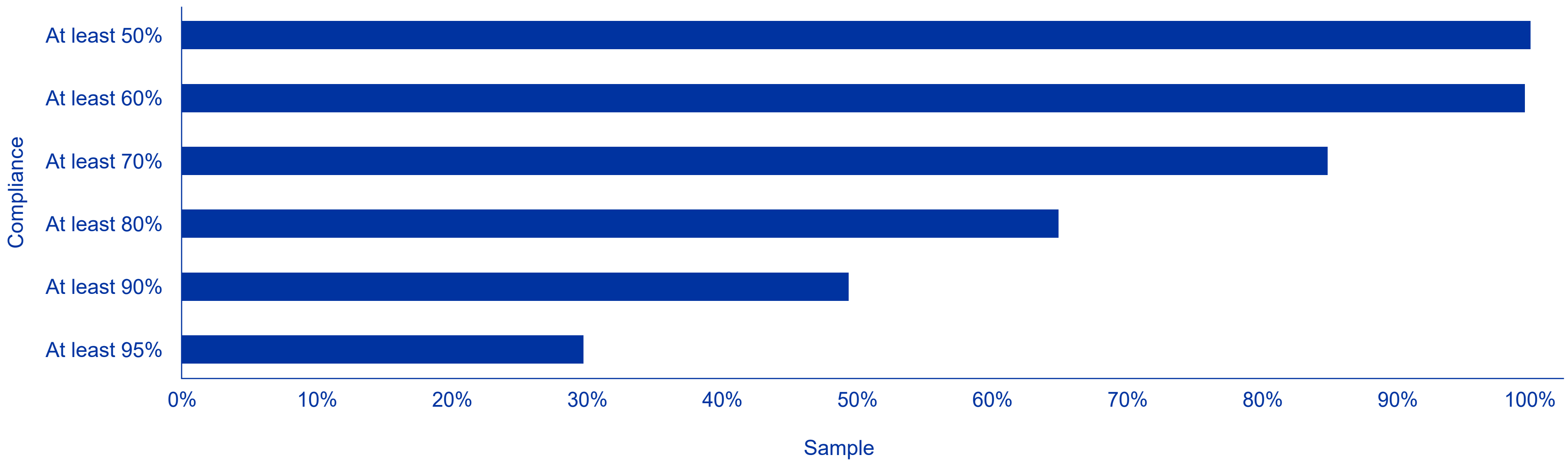
> 'The basis, frequency and timing of delivery of the audited and non-audited financial statements, and management reporting for investors should be defined in the fund documentation.'
> *INREV Guidelines, RG01*

Figure 2 shows the cumulative level of compliance with the guidelines for the Reporting, Property Valuation, INREV NAV and Fee and Expense Metrics modules. More than 95% of the sample complies with at least 60% of the guidelines, 64% of the sample is between 50% and 80% compliance, and around 30% of the participants comply with more than 95%.

The cumulative level of compliance improved, with 50% of the participants showing a compliance of at least 90%, versus 40% in 2017. This is mainly driven by higher compliance across the Sustainability Reporting section, the INREV NAV module and the Fee and Expense Metrics module. This year's analysis reflects a greater focus for investment managers to not only adopt the guidelines, but also to embed them within their investor reporting practices.

> 'We consider the INREV Guidelines as being a very good approach and solution for reaching a global, standardised model of reporting that is relevant to investors and helps comparison within peers.'
>
> *Investment manager, Nordics*

Figure 2: Cumulative levels of compliance



Investment Manager profile

In addition to the assessment reviews of the INREV Guidelines, the report includes several other themes. These portray an ongoing evolution of the real estate investment management industry and the investor reporting cycle across Europe. The sections below describe some of these themes.

Corporate governance principles remain strong in Europe

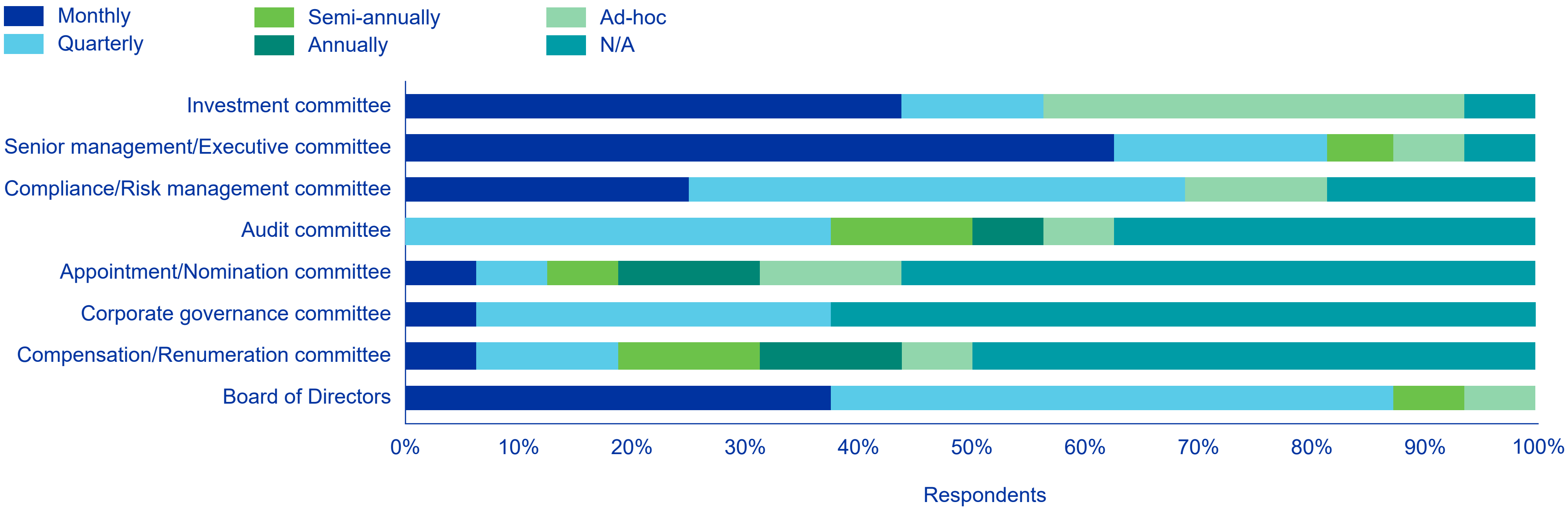
Governance around investment management platforms remained one of the focus areas of this year's survey. It also looked at the established committees and board functions across organisations and how frequently they meet to ensure effective internal controls. The model of how these committees are organised forms the basis of the control and monitoring environment of each of the participants, highlighting how their business operates, how performance is being measured, together with the mitigation and management of risks faced by their organisations.

As shown in figure 3, most investment manager organisations show strong corporate governance implementation at management level. While the Board of Directors, Executive and Risk Management committees meet regularly between monthly and quarterly, other committees, such as the Nomination, Corporate Governance and Compensation committees meet on an ad-hoc basis, or not at all at the investment manager level. There is an increased interest shown towards the Corporate Governance committee as compared with the 2017 study, which seems to be more and more part of the primary focus of the investment managers.

Next to the committees listed in figure 3, other committees mentioned included the Valuation committee (mainly quarterly meetings), Sustainable committee (ad-hoc meetings) and the management team of the investment manager (mainly bi-weekly meetings) which focuses on operational issues related to all parts of the value chain of the business.

Based on the survey, the size of the Board of Directors, in almost all cases, remains below eight persons, being either a mix of executive and independent directors or exclusively one or the other.

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



> ‘Our ambition is to achieve a more balanced gender mix across our organisation. We believe that more and more market participants will follow suit as the industry needs to improve gender equality, diversity and inclusion at each level.’
>
> *Investment manager, UK*

In terms of gender equality, 50% of respondents have less than 25% female representation on their Board of Directors. During interviews, most investment managers mentioned that efforts are being made to improve this proportion as part of executive committees, and that they are continuously working towards a more equal split between men and women across all levels in their organisation. Despite that, 83% of participants did not confirm having a specific policy in place which focuses on or is directly linked to the gender diversification for their real estate business or their managed vehicles. Nevertheless, some participants cited wider firm level policies around diversity and inclusion which also cover this area.

Risk management remains a key focus area

A changing and more regulated environment drives the need for investment managers to implement and continuously improve risk management. While there is no ‘one size fits all’ solution, investment managers need to understand their risk exposures and monitor them adequately. All participants confirmed that they are a regulated entity. In 94% of the cases, the investment manager has a dedicated risk management function.

As figure 4 illustrates, while a variety of risks are already in focus for many investment managers, there is still some lingering

Figure 4: Investment managers identify top five risks they are faced with

9% Credit/counterparty
19% Regulatory
17% Market
16% Operational, incl. supply chain
12% Liquidity
27% Others

Top five risk management priorities (2019)

21% Credit/counterparty
27% Regulatory
26% Market
5% Operational
21% Fraud

Top five risk management priorities (2017) consideration of potential instability and its ties to the regulatory landscape across European markets, such as the likely impact of Brexit for effective operation and marketing of institutional real estate investment funds. Comparing the 2019 responses with the 2017 survey, there is a slight change of focus in the prioritisation of risk management topics. For example, this year's analysis also shows more attention given to liquidity mechanisms, including rights and risks during investment periods and the process for redemption.

By analysing the results, the majority of respondents consider that risks such as operational, market and regulatory are now primary ones, illustrating a higher and more in-depth orientation to the management and business side of their funds rather than prioritising only the mandatory requirements that are considered by default in their assessments. In addition, another popular answer, although not part of top 5 yet, is cybersecurity. Investment managers have become more aware of the importance of technology and the security and controls it requires, making this essential to ensure the protection of the crucial information they possess.

Operational excellence

All respondents have already invested, are investing or have plans to strategically invest in information technology and/or data analytics in the future. The survey further emphasises the trend towards outsourcing of back office functions, with over 60% of the respondents confirming this situation for their managed funds. Many investment managers confirmed that they are planning to continue to outsource administrative functions to third party service providers. Main advantages of outsourcing include independence through the separation of duties, transparency between the manager and investors, standardisation of reporting as well as already established technology solutions.

> 'Today, our real estate funds are working with technology. I'm quite convinced that in a couple of years, there will be a technology company working with real estate'
>
> *Investment manager, Nordics*

Administrative services which participants are generally outsourcing or looking to outsource across their managed investment vehicles include accounting (both vehicle and property as well as financial statements preparation) and regulatory services (AIFMD depositary and other local country specific filings). On the other hand, it appears that some functions are still considered to be more sensitive when considering outsourcing, especially for cash management / treasury and corporate secretary functions. Results of the survey show that most investment managers (more than 70% in both cases) still prefer to keep these two functions in-house rather than externalising to third parties.

Technology

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 data visualisation, technical support or cyber security can be found both in in-house and outsourced models.

While 38% of investment managers already have a chief technology officer seated on the Executive or the Investment Committee, 13% of the respondents are strongly considering it. This is one of the main changes compared to 2017 results, when only 8% of investment managers confirmed the involvement of a chief technology officer in one of these committees. This is evidence to a change of mindset concerning the importance of technology and its impact on the business. Moreover, it starts becoming more obvious and spread within the organisations' cultures that careful consideration and attention should be paid to the value of technology.

The survey and the subsequent interviews showed that an increasing number of investment managers use integrated digital platforms to operate their business. It also appears to be a trend in using more specialised IT software for various business streams, considering that more than 53% of the participants are already using specialised real estate business solutions for processes beyond fund accounting or reporting, such as asset management, planning and forecasting, valuation, even client relation/ business development.

The use of internally tailored solutions is less favoured among respondents, with only 11% considering internally developed tools in 2019 compared to 30% in 2017, its most common use being for internal research activities.

According to participants, the most anticipated area of future investment in technology will occur in data management. The interviews highlighted an increasing importance given to enhancement of software solutions. Keeping pace with technology, its integration across business processes and leveraging on the potential benefits are now key focus points for senior management. IT development in cyber security and enhancing big data capabilities and visualisation are high on the agenda for more than 60% of participants.

Last, but not least, another important outcome is on globalisation and implementing a 'one-system' view across all managed vehicles. It was confirmed by 80% of the participants that they are using similar systems for all their managed vehicles, with another 13% stating that these are identical at least across Europe. Interview discussions outlined that investment managers share a global tendency to standardise the tools they use and to build digital platforms to enable them to easily share and transfer data and information in the same format. This should not be seen only as a cost saving strategy, although it can bring considerable cost benefits, but more towards the need of having one common data storage that can generate similar outputs to satisfy a variety of investors and their needs across regions.

> 'Creating a data warehouse is key to have all data from different systems available in one source.'
>
> *Investment manager, Luxembourg*

Paths forward

Reaching a record compliance level of 85% overall, investment managers have strongly complied with the Reporting, Property Valuation, INREV NAV and Fee and Expense Metrics modules of the INREV Guidelines based on the results of this year's study. Consistent with previous studies, the quantitative requirements of the guidelines seem to be easier to comply with than the qualitative requirements. The main reason is that the reporting processes which are in place require certain information to be complied with and presented within financial statements. On the other hand the qualitative requirements and the level of reporting disclosures are agreed together with investors or generally remain at the discretion of the investment manager.

These positive results emphasise that investment managers remain strong advocates of the INREV Guidelines and aim to be as compliant as possible in the future. In cases where information was not included in annual reports, most participants were still disclosing the relevant information in other reporting packs sent to investors - mostly in quarterly or interim reports. The main reporting goal stated by investment managers is ensuring that timely and relevant information is provided to investors in order to facilitate their decision-making processes.

Investment managers recognise the importance of having a sound compliance culture anchored on good corporate governance and have various committees and boards in place which meet regularly.

Operational, market and regulatory risks are now the top three risk management priorities, illustrating a more in-depth direction for fund management. Cybersecurity is becoming an essential priority to ensure the protection of the growing data set and information which investment managers possess.

Participants showed great interest towards information technology, confirming their plan to invest in technology with a focus on integrated digital platforms and products across regions, data management and analysis tools. In addition, there are more investments expected in Enterprise Resource Planning (ERP) systems, driven by the desire and need to improve efficiency in day-to-day business operations.

Increasingly, the importance of technology in strategic decision making is also recognised through appointments of more chief technology officers to management boards.

The awareness of climate risk is growing in the real estate industry, but it is still difficult to align return-driven targets with 'green investments'. Over the long term, however, investment managers should expect that real estate investments without consideration of sustainable aspects will become less tradable and therefore it is key to start incorporating ESG factors in today's investment decisions.

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 the INREV Guidelines can be kept up to date and expanded where needed.

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 in a future update of the INREV Guidelines, and to tailor the Guidelines to specific vehicle strategy and structure where needed.

The review focused on each fund's individual investor reporting format, which typically comprises an annual report and/or interim reports and to what extent such reporting complies with the relevant parts of the selected modules of the INREV Guidelines.

Results from this year's review of 2018 annual reports have been determined based on a scoring methodology which reflects disclosures within each section of the INREV Reporting module (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, Sustainability Reporting), as well as 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 within the relevant guidelines. Where possible, the review considers qualitative factors to help distinguish between different degrees of adoption. This approach is intended to ensure a higher 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 assessing the level of non-compliance, an item marked as "not applicable" has not been included in the compliance ratio for a specific section.

Within the INREV Guidelines, a distinction is made between the Manager's Report, the Property Report and the other Financial Reporting disclosures. This distinction has not always been made for the reports of some investment managers. Some financial reports are published in a free form in which these disclosures 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 2019 and comprised the following steps for each fund:

- Investment managers delivered their main investor reporting documents, for example, the fund's 2018 annual report, Q4 2018 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 against the selected INREV Guidelines;

- Investment managers have been requested to fill in the INREV online Self-Assessment. Where relevant, the PwC Luxembourg assessment was compared to the Self-Assessment of the investment manager.

- When no material reporting changes occurred for the funds previously included in the 2017 study, investment managers were allowed to roll forward their previous results from the online Self-Assessment;

- 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, ESG, technology investments, and the realities of dealing with changing investor needs and requirements;

- Investment managers will be given individual feedback for their funds shortly after the publication of this report. This will comprise of their compliance scores within the modules of the INREV Guidelines which were in scope for this year's study. In addition, individual feedback to each participating member will be provided by PwC Luxembourg in the INREV online tool, providing tailored suggestions/tips for future improvement of their investor reporting based on the review.

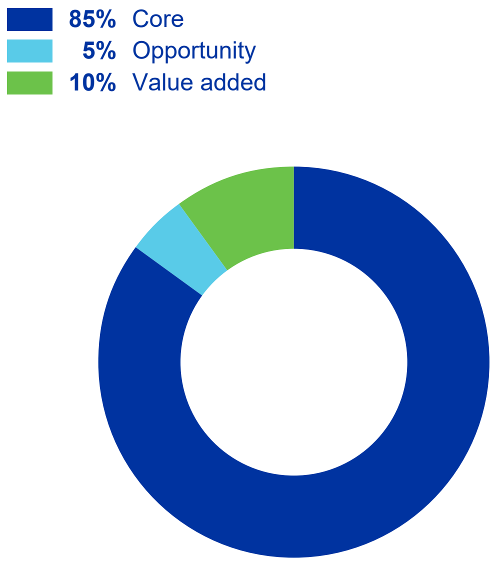
Sample

As at Q2 2019, the INREV Universe comprised 461 vehicles. For the purpose of this review, INREV sent requests to 142 investment managers to participate in this survey, and to submit their latest annual report and other reports if applicable.

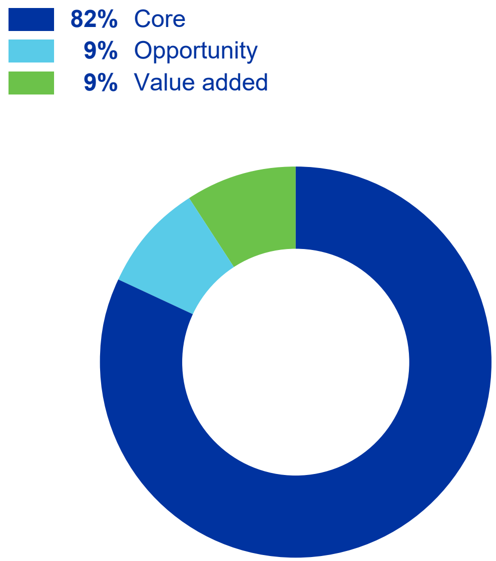
Information was received from 31 investment managers, with reports for 42 funds. In the review, we included all 42 funds for which information was received (41 in 2017), resulting in 154 overall assessments completed and reviewed (118 in 2017). In order not to overweight some investment managers over others in our sample, we made sure that no more than two reports from the same investment manager were included in the retained sample, which we deem as representative of the whole investment manager universe.

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.

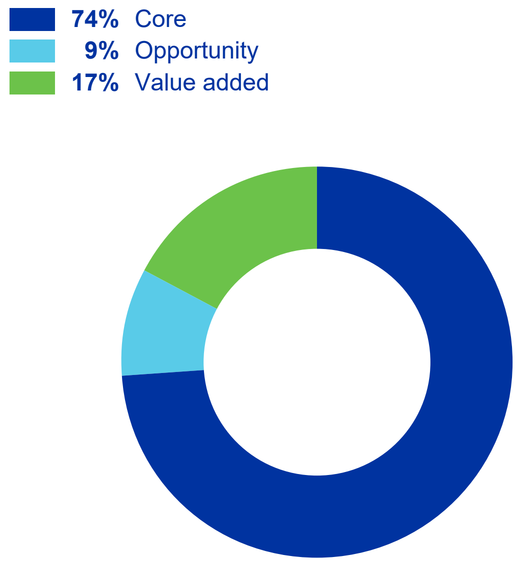
Figure 5: Fund style as a proportion of the population



Fund Style 2019 study



Fund Style 2017 study



Fund Style 2015 study

The proportion of the participating funds remained stable compared to the review in 2017. The sample of 42 funds represents 9% of the total INREV Universe (9% in 2017). As it can be inferred from table 3, 52% of the vehicles within our sample are domiciliated in Luxembourg, 26% in the Netherlands, 10% in the UK, and the remaining 12% in Jersey, Ireland, the United States and Norway.

Figure 3 shows the sample for this survey in terms of fund strategy in comparison with the sample used in previous years' studies. We can observe that the relative weight of core funds in the sample has kept increasing, ie. in the 2019 sample, the weight is 3 percentage points higher than in the 2017 survey, and 11 percentage points higher than in the 2015 survey.

Table 3 shows the breakdown of respondents in the 2019 study by vehicle structure, strategy, domiciliation, accounting standards and reporting currency:

Table 3: Number of respondents by fund style and Reporting standard

		Accounting Standards	IFRS		Local GAAP				Total	
Structure	**Manager Defined Style**	**Domicile**	**EUR**	**GBP**	**EUR**	**USD**	**GBP**	**NOK**	**#**	**%**
Closed end	**Core**	Luxembourg	6						6	15%
		Netherlands	1						1	5%
		United Kingdom					1		1	5%
	Opportunity	Jersey			1				1	2%
		United Kingdom			1				1	2%
	Value added	Luxembourg	3		1				4	12%
Open end	**Core**	Ireland	1						1	2%
		Jersey		1					1	2%
		United States				1			1	2%
		Luxembourg	9		3				12	17%
		Netherlands	8		2				10	20%
		Norway						1	1	2%
		United Kingdom		1					1	5%
	Total	#	28	2	8	1	1	1	41	100%
		%	68%	5%	20%	2%	2%	2%	100%	

Note: the total number of funds shown in table 3 amounts to 41.

Table 4 shows the breakdown of respondents for the 2019 study by fund style, strategy, and vehicle domiciliation.

Note regarding the methodology for calculating the overall compliance

In this year's study, the 'overall compliance across all sections per respondent' has been calculated as the average of the compliance per module across the four selected modules (ie. Reporting, INREV NAV, Fee and Expense Metrics, and Property Valuation), in line with the calculation performed in the dashboard of the INREV Assessment tool. In the previous study, this measure was calculated as the average of the compliance per section across the same four modules, regardless of the module to which each section belongs. The impact of this methodological change was deemed as not material on an aggregated level, ie. on the value of the sample's overall compliance, and therefore does not significantly affect the analysis from the year-on-year comparison.

Figure 6: Fund style and reporting standard

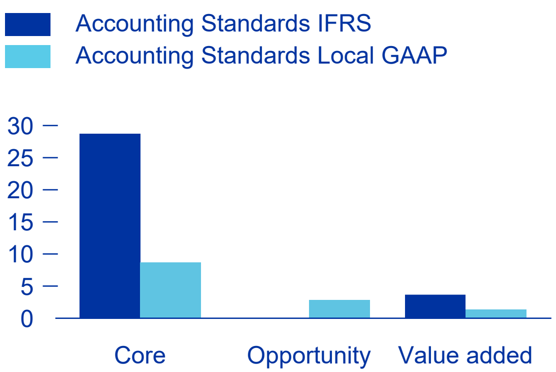


Table 4: Number of respondents by fund style and strategy

		Fund Strategy							
		Germany	Ireland	The Netherlands	Portugal	United States	UK	Multi-country	Overall
Core	Open end	1	1	10		1	2	12	27
	Closed end				1		1	6	8
Opportunity	Open end								0
	Closed end	1						1	2
Value added	Open end								0
	Closed end							4	4
Overall		**2**	**1**	**10**	**1**	**1**	**3**	**23**	**41**

Note: the total number of funds shown in table 4 amounts to 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% (same as in 2017)

Insight: This section was generally very 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.

For the small number of participants who didn't comply with RG1, it can be argued that this information is being included in the prospectus. Therefore, they will not restate it again unless in the event of material changes. Similar comment can be made for the KPI section.

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?	81%

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: 91% (2017: 89%)

Insight: This section shows an overall compliance level of 91%, which is one of the highest among the Reporting module. It can also be noted that 95% of responding funds disclose enough 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, only managed to reach a level of 58% however, still showing an improvement from 2017 analysis when it was only 35%. According to investment managers during interviews, the level of compliance on a module by module basis is not necessarily presented explicitly in the annual reports, not even for some of the modules, especially for the INREV NAV module,) where details and disclosures are presented as alternative within their interim reporting and quarterly releases to their investors. Main reason cited by them is the fact that, as long as they define the adherence to the guidelines and they apply it within their reporting practices, they do not consider disclosing the compliance level as a key factor.

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.	58%

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: 80% (2017: 74%)

Insight: The reason for a compliance level below the overall average of the Reporting module compliance of 80% is primarily due to RG16 and RG17. The low compliance level can be explained by the fact that not all investment managers have fully adopted the INREV corporate governance best practices.

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 a governance oversight framework. Finally, in order to assess their corporate governance against best practices, fund managers are encouraged to use the INREV 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?	35%
RG 17	Does the annual report include a description of the level of compliance with the corporate governance framework defined in the fund documentation?	62%

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 ie. subscriptions/calls, redemptions/distributions etc., returns and the impact of fees on performance.

Overall compliance level: 87% (2017: 84%)

Insight: The high compliance level of 87%, is explained by the fact that most of the requirements, such as drawn and undrawn commitments, together with share class NAV's and distributions made during the year constitute information usually presented in the audited financial statements, as they are also mandatory requirements within the reporting framework.

With a level of compliance standing at 80%, 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 comparing 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?	80%
RG 26	Does the annual report summarise how the fund's fee structure impacts the fund's capital structure and fund level returns?	74%

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: 92% (2017: 87%)

Insight: The Managers' Report section of the reporting guidelines focuses on information of the overall performance of the fund and factors that may affect performance in the future. The overall compliance to this section is the highest among all the others, reaching the level of 92%. It can also be noted that 83% of responding funds disclose enough information to comply with at least 80% of the reporting guidelines requirements.

With a 64% 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 within an analysis over 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?	64%

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: 79% (2017: 78%)

Insight: The Property Report section of the reporting guidelines focuses on reporting performance at the asset level. The requirements in this area reflect the different nature of various assets, from development properties to fully operating investment properties.

The disclosures regarding acquisitions and disposals during the year are well complied with, showing 88% 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 86% on average.

The investors' reports disclose the valuation methods and assumptions as well as the appraiser's information in 83% of the cases, on average. However, only 62% of the respondents are disclosing enough information regarding changes in the development of rental growth and expected rental values by sector/geography.

Advice for better compliance – RG44:
Compliance with RG 44 requires that fund managers disclose and present the material changes occurred with respect to rental growth, both by sector and geography where applicable, as well as presenting an expectation to the potential impact of the future rental values.

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
RG 44	Does the annual report comment on/the interim report comment on material changes of the development of: • rental growth by sector • rental growth by geography? • expected rental values by sector? • expected rental values by geography?	62%

Risk management

Purpose: This section of the INREV 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: 88% (2017: 84%)

Insight: Compliance with this section matches 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.

Almost all funds have embedded risk management frameworks, illustrating major risk exposures in their reports. In addition to this, as a considerable improvement compared to 2017 analysis, the level of compliance with risk management policies is also presented in the reports (81%). In most cases, our sample did not show any specific breaches for the period under review, however, in case of breaches occurred, the funds usually will mention them in their investor reports, in particular within the compliance section, with the inclusion of remedial plans.

Sustainability

Purpose: The guidelines consist of mandatory sustainability reporting requirements. This section of the INREV Guidelines includes also references to other industry standards which are in place in the real estate industry: GRESB, GRI and EPRA.

Overall compliance level: 73% (2017: 55%)

Insight: Compliance with this section was lower than the other sections, but has improved compared to the results from 2017 study.

While more and more funds disclose their approach towards sustainability and other ESG factors in their reports, some do not discuss in detail nor specifically measure and monitor sustainability goals within their annual reports. Nevertheless, during the interview discussions and also based on the comparative analysis performed versus 2017 results, there is an increased focus on addressing environmental changes, their impact and how funds mitigate these matters. As some of the interviewed investment managers explained, their focus shifted in the context of legislation changes, investors requirements but also awareness of corporate social responsibility and how their funds consider and address it. Another point that was raised during interviews is the fact that some funds do not report these matters within their annual report, but prefer to integrate them in the quarterly reports or even have dedicated sustainability reports released to their investors on absolute environmental data, such as energy, GHG emissions, water or waste.

Advice for better compliance: We encourage fund managers to try and include more information regarding ESG issues in their annual reports as well, while also considering to increase focus on measuring sustainability together with the social and governance impact of their investments.

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
ESG-LTS 1.1	Do you describe the vehicle’s overall approach to ESG and its embedment in the corporate governance framework?	77%
ESG-ENV 1.1	Do you disclose the following environmental data: absolute like-for-like data, intensity (for main asset classes), or explain why not available? This disclosure should detail for the following measurables: energy, GHG emissions, water, and waste.	68%

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: 94% (2017: 87%)

Insight: Out of the total sample under review, 29 funds submitted their assessment regarding their compliance with the INREV NAV guidelines. The overall compliance level of 94% proves that funds across Europe consistently calculate and disclose an INREV NAV.

Furthermore, an increasing number of respondents consider these guidelines as being particularly useful as a base for determining and disclosing their fund trading NAV, fact which is supported by the adoption and very high compliance level recorded for this module. Some investment managers disclose the INREV NAV in their annual reports, even if this is not necessarily a requirement of the accounting standards, while others report it in their quarterly reporting to investors.

Considering the improvement in the 2019 score versus 2017 and the higher compliance recorded, it can be highlighted that investment managers took into account the increasing importance of INREV NAV, situation that is properly reflected within their fund reporting.

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.

Overall compliance level: 71% (2017: 62%)

Insight: Out of the total sample under review, 31 funds submitted their assessment regarding their compliance with the Fee and expense metrics guidelines. The overall compliance level of 71% proves that funds across Europe start to pay more attention to this guideline, thus improving the level of compliance versus the study from 2017.

The INREV Total Expense Ratio (TER) and Real Estate Expense Ratio (REER) metrics have been historically less adopted by investment managers. In the 2017 survey only 52% of the funds reported a TER, and 58% a REER. These ratios increased to 66% for the TER and 70% 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 measures property expenses over the weighted average GAV is also becoming more used by investment managers. On the other hand, some managers confirmed that these ratios seem to be less attractive for their internal purposes, as they are using other group or global frameworks in within their reporting in order to align to the entities operating in other regions or frameworks.

Following the interviews, it can also be noted that several investment managers who have not yet adopted the TER and REER within their annual reporting confirmed the desire and commitment to integrating these metrics and related guidelines within their future reporting packages.

Advice for better compliance: We advise investment managers to compute both TER and REER and include the ratios both in their quarterly as well as in their annual report regardless of investor requests. Also, information in connection with the metrics used, as well as frequency of such disclosure should definitively be included in the vehicle documentation.

As evidenced by our survey, there is increasing interest in including these ratios within the audit scope.

Noteworthy requirements:

INREV Guideline	Survey question	Compliance
	Does the vehicle documentation include: • the fee and expense metrics expected to be disclosed by the investment manager? • the frequency of disclosure of the fee and expense metrics?	71%

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.

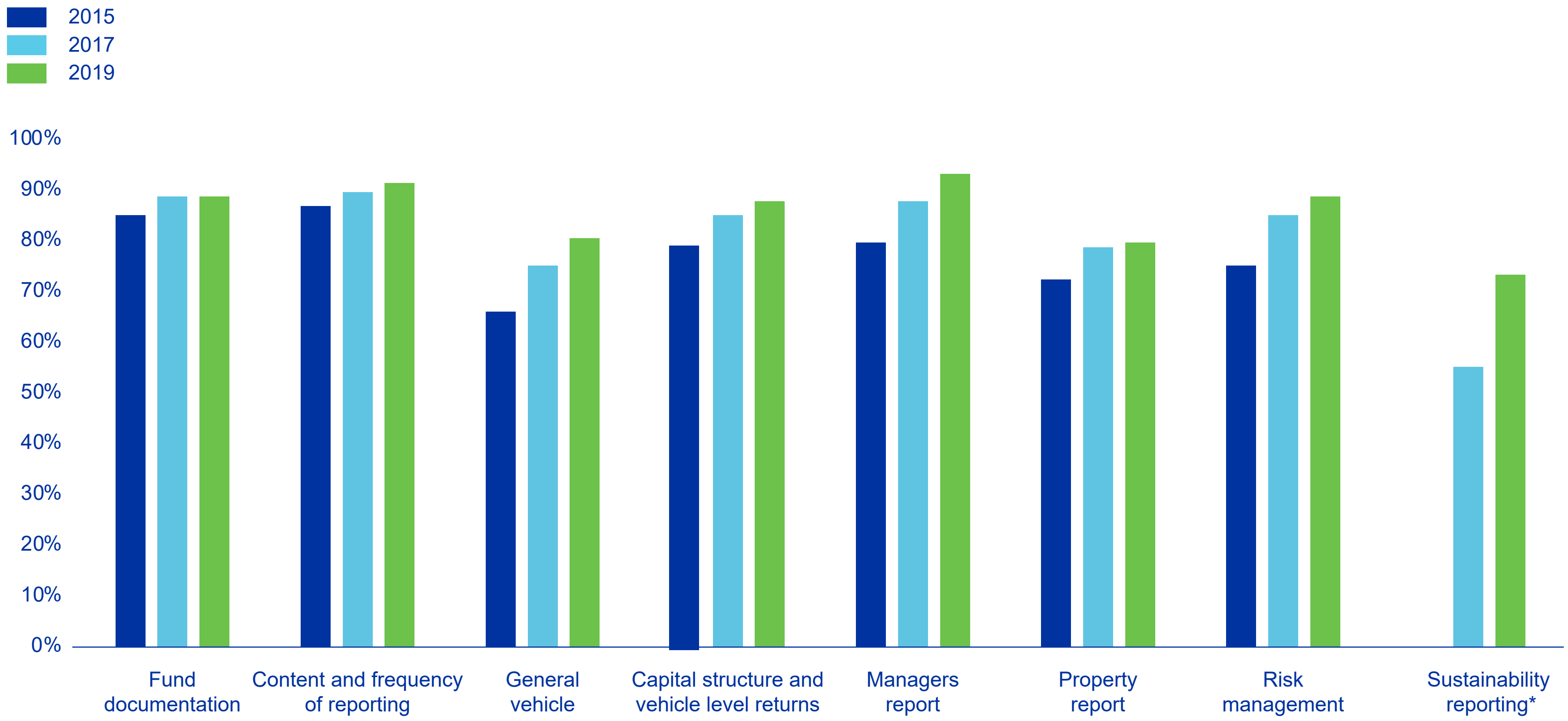
Overall compliance level: 98% (2017: 97%)

Insight: Out of the total sample under review, 30 funds submitted their assessment regarding their compliance with the Property valuation guidelines. The overall compliance level of 98% proves that funds across Europe consider these guidelines as one of the most important for their reporting and internal processes.

Reflected in a record score of 98%, 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 quite rare. The process of appointment and re-appointment of the external valuer is reviewed at least every three years, and it appears that for majority of funds responding in this questionnaire the external valuation is scrutinised by the manager's formalised internal valuation review and approval process.

Appendix 3 –
Detailed cumulative compliance

Figure 7: Year on year change in reporting sections



* Sustainability reporting section was released in 2016

Table 5: 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	41	98%	33	79%	33	79%	33	79%	33	79%	33	79%
Content and frequency of reporting	42	100%	41	98%	40	95%	40	95%	25	60%	21	50%
General vehicle information, organisation and governance	34	81%	33	79%	30	71%	20	48%	12	29%	12	29%
Capital structure and vehicle level returns	40	95%	38	90%	33	79%	30	71%	26	62%	24	57%
Managers' report	42	100%	41	98%	41	98%	35	83%	28	67%	23	55%
Property report	37	88%	34	81%	31	74%	26	62%	18	43%	15	36%
Risk management	41	98%	39	93%	38	90%	31	74%	24	57%	24	57%
Sustainability	33	79%	28	67%	24	57%	24	57%	22	52%	22	52%
Overall compliance with Reporting guidelines	41	98%	38	90%	37	88%	29	69%	23	55%	14	33%

Table 6: Cumulative level of compliance within the Other Modules

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	%
INREV NAV	29	100%	28	97%	28	97%	25	86%	22	76%	22	76%
Fees and Expense Metrics	22	71%	21	68%	20	65%	14	45%	13	42%	12	39%
Property Valuation	30	100%	30	100%	30	100%	30	100%	28	93%	25	83%
Overall compliance with the all four guidelines	41	98%	41	98%	36	86%	27	64%	21	50%	12	29%

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