Greater emphasis on corporate governance since the financial crisis driven by an increase in regulation

- AIFMD is the main trigger for a corporate governance review
- Corporate governance has a positive impact on volatility, performance, risk and capital raising ability
- Governance standards will likely play an increasing role in determining successful fund managers

Corporate governance has come under greater scrutiny for the non-listed real estate industry, especially since the recent financial crisis and the introduction of legislation such as the Alternative Investment Fund Managers Directive (AIFMD).

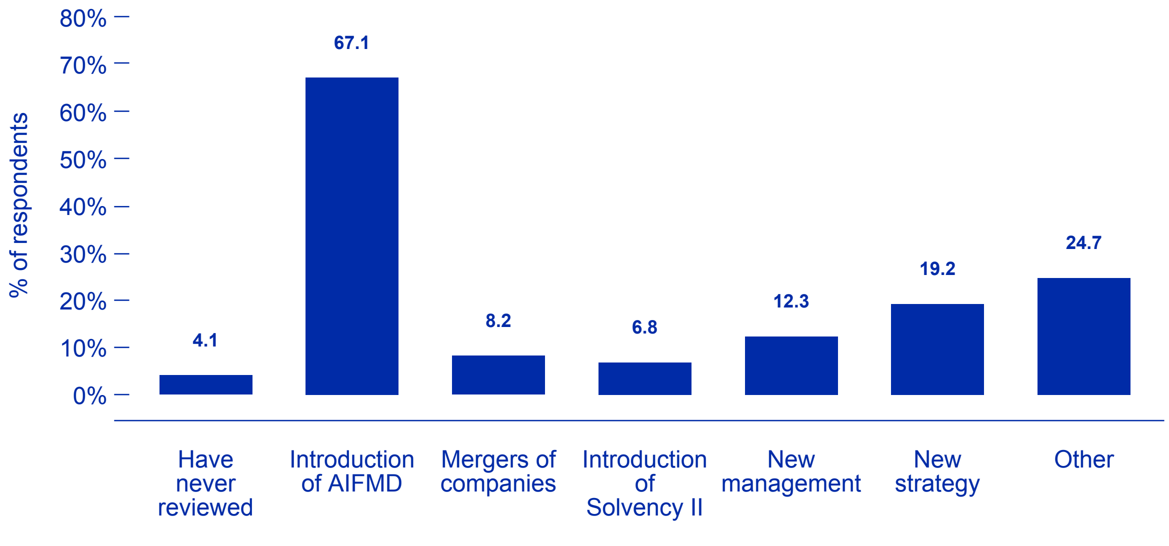
Corporate governance has a positive impact on reducing volatility, increasing performance, reducing risk and increasing capital raising ability according to the results of INREV's latest study.

Fund managers feel that investors are now, more than ever, seeking higher standards of corporate governance and greater investor protection before committing to any investments to ensure that returns meet or exceed expectations.

> 'Investors are now seeking higher standards of corporate governance and greater investor protection'

Corporate governance is high on fund managers' agenda, with 29.2% currently reviewing their corporate governance framework. While 40.5% expect to do so within the next year, another 13.9% of fund managers will review their corporate governance within the next two years, and a small proportion (1.4%) will likely review within the next five years.
It is surprising to see that 15.3% of fund managers do not have plans to have a corporate governance review within the foreseeable future.

Figure 1: Main trigger to review corporate governance



The majority of fund managers (67.1%) see the introduction of AIFMD as the main trigger to conduct a review on their corporate governance practices. However, several fund managers, especially small and medium-sized fund managers, find that AIFMD could result in an increase of corporate governance costs, massive overheads and an increase in bureaucracy, which will drive further consolidation in the market.

New management and a new strategy are also seen by fund managers as triggers to review their corporate governance framework, at 12.3% and 19.2% respectively. Other factors such as mergers of companies (8.2%) and the introduction of Solvency II (6.8%) play relatively smaller roles. A number of fund managers (9.6%) review their corporate governance framework annually without any triggers.

The corporate governance principle related to acting in investors' interests (INREV's corporate governance principle 6) is ranked as the most important criteria by fund managers. Principle 2 (compliance with laws and constitutional terms), principle 3 (skill, care, diligence and integrity) and principle 5 (transparency) rank equally in second place among fund managers. Principles regarding fund managers' accountability (principle 4) and confidentiality (principle 7) rank fifth and sixth respectively.

Fund managers view good corporate governance to have a positive and moderate impact on fund performance. The results for INREV principles 2 (compliance with constitutional terms) to 6 (acting in investors' interest) is positive and statistically significant. This seems to indicate that fund managers highly value good corporate governance with a particular focus on principles 2 to 6. They believe that good corporate governance should translate to higher fund performance as it helps to improve their investment decisions and subjects them to less external and/or management risk.

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Figure 2: Impact of corporate governance on performance by a semantic differential