

Appendix 3: Specific ESG- and valuation- related roles of parties involved in vehicle governance

Please refer to the INREV Governance module's Tools and Examples for a generic description of typical governance roles and responsibilities which surround and direct the activities of a particular vehicle. The following text describes how this generic framework can be adapted and embed specific ESG components to ensure the vehicle defines and achieves its desired ESG outcomes.

From an operational point of view, real estate investment vehicles generally operate in an environment where the specific roles and responsibilities that support both strategic decision-making as well as day-to-day operations are allocated to a number of different parties, including external service providers. Many of the key ESG-related policies and procedures operate within the investment manager's organisation, some or all of which may be adopted by the vehicle concerned. This typically results in complex and diverse governance models, which are reliant on an effective definition and allocation of roles and responsibilities among those concerned. While these guidelines do not mandate any specific activity to be undertaken by a specific function, the investment manager together with the governing body of the vehicle should ensure collectively that the governance structure that emerges is appropriate to effectively govern the vehicle from an ESG perspective, in the best interest of its investors and other stakeholders.

The effectiveness of the structure should be monitored throughout the vehicle's life and amended where necessary. The typical roles in respect of vehicle governance for the functions commonly found in real estate investment vehicles are set out in the diagram below:

Read more at [Global definition database](#).

Vehicle

The overarching term for any kind of investment structure, including funds, joint ventures, club deals, and separate or single accounts.

The constitutional documents of the vehicle are key documents, including their annexes, establishing a contractual framework of how the vehicle will operate and the significant legal rights and obligations of the parties entering those agreements related to the vehicle.

The main elements of a vehicle's governance model are legally defined in its key documents and various bodies are empowered to act accordingly. *The governance model may include reference to specific committees or roles that have responsibility for developing an ESG strategy and monitoring performance against it.*

Investors

Investors commit capital to a vehicle in line with their investment strategy with the expectation of investment returns and *potentially ESG outcomes*. After performing their own due diligence on a vehicle, the investors commit capital which is subsequently drawn down. The level of control and influence they have over a vehicle is determined by the legal form of that vehicle and its constitutional documents. Investors may be represented by investor representatives forming a body such as an investor advisory committee which is part of the governance structure of the vehicle. Investors monitor the manager's actions, including those in relation to ESG matters, and may influence the managers' decisions through these representatives.

Investors should be comfortable that the vehicle documentation, including its valuation framework, is adequate and in line with their expectations. Property valuations play an important role in determining the pricing of units and/or shares of vehicles. Investors should be informed about the property valuation process and procedures, including frequency, responsibilities and oversight, the degree of alignment with recognised valuation frameworks, the level of adoption of the INREV Guidelines, and how valuation outcomes are used to determine the NAV of the vehicle.

Investor organisations are diverse and include a wide variety of different mandates, legal status, organisational structures, and investment approaches. Many of them have established dedicated ESG specialist teams that play a major role in evaluating and monitoring investment portfolios. ESG specialists may also be embedded in regional or sector-specific teams. In addition, ESG-related considerations often play a major role in key decision-making.

Investor representatives

Investor representatives may form various bodies within the governance structure of a vehicle. They may be established to represent all investors in a vehicle, or only investors with the legal right to a seat in such a body due to the amount invested or some other parameter. Many of these representative bodies have no formal legal powers. They act solely as consultative bodies available to the investment manager and the governing body of a vehicle to ascertain the views of investors in certain circumstances.

Investor representatives may also be involved when dealing with controversies and disagreements related to valuation outcomes as well as any necessary adjustments applied by the investment manager in exceptional circumstances that investors should be informed about.

Depending on the preferences of the investors in a particular vehicle, investor representatives and related bodies acting at the vehicle level may have a specific mandate to monitor ESG-related activities and outcomes and may have certain powers to influence some key decisions in this respect.

Governing body of the vehicle

The composition and nature of the governing body of the vehicle depend on its legal form. It is typically either a corporate type of board or the general partner of a partnership. The governing body of the vehicle provides its substance and is legally responsible for the oversight of the vehicle.

Where applicable, the governing body of the vehicle may include independent non-executive directors whose primary responsibility is to represent the interests of all investors.

The governing body of the vehicle formally appoints and oversees all service providers to the vehicle, including the investment manager. *This may include a range of ESG-related specialists such as data providers, benchmarking specialists, and other ESG-related consultants.*

The governing body is also responsible for assessing the effectiveness of the valuation framework and ultimately approving the financial statements and the NAV of the vehicle.

This body also approves the interim and annual reports to the investors, prepared by the manager organisation, *which include required ESG-related disclosures.* The composition and technical skills of the governing body of the vehicle is a critical factor in the overall effectiveness of the governance structure which operates to protect investors' interests. *The governing body of the vehicle should approve and oversee the ESG strategy and objectives of the vehicle.*

Read more at [Global definition database](#).

Investment manager

The investment manager represents the organisation responsible for the overall governance and oversight of a real estate investment vehicle or another type of investment vehicle and may incorporate the investment advisor. The investment manager is ultimately accountable to investors for the overall management of the fund or vehicle *and its related ESG performance.*

The investment manager (or “manager organisation”) includes both the regulated management company (AIFM), investment advisor and various operational entities. The AIFM is formally responsible for portfolio and risk management as well as the valuation oversight and compliance functions, *all of which include significant ESG-related responsibilities which need to be embedded in their day-to-day activities.* The investment advisor typically develops and implements the investment strategy, performs due diligence on assets and manages the investment pipeline, *a function which includes a significant ESG-related component.* *The investment manager organisation may also include a dedicated ESG-related team responsible for supporting various roles within the organisation structure of the investment manager. This may be a centralised or distributed function within the organisational model of the manager.*

The investment manager is responsible for organising and operating the underlying vehicle infrastructure, including any outsourced functions, on behalf of the vehicle. *Many of the outsourced functions and particularly in the area of property and asset management, include significant ESG-related responsibilities related to individual assets and the environment and society in which they operate.* The investment manager is appointed by and is accountable to the governing body of the vehicle.

The valuation function is carried out by the investment manager either internally through dedicated teams, independent from other functions, or by appointing an external valuer. As part of the property valuation process, the investment manager reviews and assesses the information related to the valuation outcomes to ensure it fairly reflects market context, clearly evidences and justifies the inputs and assumptions applied, and includes sufficient data, information and disclosures to facilitate reporting and communication with investors and/or key stakeholders, as relevant.

The manager organisation *is accountable to its overall governing body* and typically includes some form of investment committee composed of qualified individuals who oversee the relevance and quality of the investment pipeline, *including ESG-related considerations,* and its allocation across respective investment vehicles. In addition, they review divestment proposals and significant development projects.

Service providers

A number of the operating functions of the investment manager may be outsourced to third party service providers, including the AIFM. *These functions may include services related to ESG data collection, verification and benchmarking. In addition, ESG specialists may be used in the investment and development activities and processes, and to support compliance with regulatory and other reporting requirements.*

Other service providers, such as the external auditor and valuer are independent of the investment manager and accountable to the governing body of the vehicle and play a role in protecting the interests of the investors. *Some of their responsibilities may include consideration of ESG-related criteria.*

There should be a clear understanding of the context and purpose of their work. For example, appropriate terms of engagement should be agreed upon to determine their role and the scope of the instructions. For external valuers, this includes frequency and timing of delivery, explanations of the inputs, methodology and assumptions regarding valuation outcomes, and the information that should be submitted to the investment manager. Depositories and custodians should also ensure that asset and liability valuations are conducted in accordance with the legal framework and applicable regulations.

Independent non-executive directors

Independent non-executive directors are senior officers, without management responsibilities, who may be appointed on the governing body of an investment vehicle to represent the best interests of all investors, collectively. They should always be independent of the investment manager and bring a breadth and depth of relevant executive experience.

Independent non-executive directors should have the appropriate skills, capacity, and competence to act effectively in the best interests of investors, *and in some cases may include a specific ESG-related skillset.* Independent non-executive directors play an important role in scrutinising and approving key matters that are subjective, complex, and material to the outcomes for investors. *These may include ESG-related issues*