INREV Guidelines 2014

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1. Introduction

1.1. Objectives

The objectives of the INREV Guidelines are:

- to establish requirements and best practices within the sector and to help managers implement them in practice;
- to ensure that investors in non-listed real estate vehicles obtain consistent, understandable, easily accessible and reliable information that can be compared across investments and between different periods.

These objectives are in line with INREV's goals of increasing transparency and professionalism and promoting best practice in the European non-listed real estate industry.

1.2. Overall structure of the INREV Guidelines

The INREV Guidelines are organised into seven modules as follows:

Module 1 – Corporate Governance
Module 2 – Reporting
Module 3 – Property Valuation
Module 4 – INREV NAV
Module 5 – Fee and Expense Metrics
Module 6 – Liquidity
Module 7 – INREV Data Delivery

Each module consists of an introduction, principles and guidelines which are either best practices or requirements. Some modules contain tools and examples and/or questions and answers relevant to that particular module. The terminology is described below.

Principles	Principles serve as a basis for the requirements and best practices.
Best practices	Best practices have been developed by INREV to enable investors and managers to design vehicle products and develop and implement effective corporate governance frameworks which are aligned with industry best practices, but at the same time are relevant to specific needs. Managers should evaluate themselves against such best practice frameworks and disclose to investors the extent to which they adopt them.
Requirements	Requirements are more technical in nature, and the level of compliance can be assessed with the help of INREV compliance checklists. If all of the requirements for an

individual module are fully implemented, the manager can disclose full compliance with that module. If the requirements of a module are not fully met, the manager should disclose that the corresponding module has only been partially complied with, along with the reasons for non-compliance and any additional information relevant to investors' understanding.

The tools and examples are to be used to assist in the application of the guidelines. The tools and examples do not form part of the guidelines and are not part of the compliance framework.

Tools	Tools support market participants in assessing specific situations and in complying efficiently with INREV Guidelines and standards.
Examples	Examples serve as a pattern to be followed by market participants to illustrate a certain standard.

In addition to the modules, a modular Compliance Framework is provided to guide investors and managers in reaching agreement on an appropriate level of adoption of INREV best practices and in deciding on the level of compliance with INREV requirements for individual modules.

INREV proposes definitions ('INREV Definitions') to achieve a universal application of terms within the non-listed real estate industry.

INREV has broadened its remit to cover an expanded range of non-listed products for investing in real estate, with a special focus on non-listed real estate funds, funds of funds, debt funds, joint ventures, separate accounts and club deals.

The INREV Guidelines 2014 address this wide range of non-listed vehicles in general. Most principles are applicable to different types of non-listed real estate vehicles, but there may be differences in implementation. This could result in the need for vehicle-specific guidelines.

The on-line INREV Guidelines offer a filter functionality. After selecting specific vehicle characteristics, the customised guidelines, tools and examples will be provided. Most of the existing guidelines have been developed with non-listed real estate vehicles in mind. Where necessary INREV will develop further guidance applicable to specific investment vehicles over time.

2. Recent updates

This section includes updates that have been made to the INREV Guidelines over the last 18 months and gives guidance on the implementation of the revised modules. The most recent updates are shown at the top of the list which can be found below the table.

Effective dates and transition

A manager should implement the INREV Guidelines 2014 prospectively based on the following dates.

Update	Guidelines	Implementation Date
April 2014	Corporate governance	From 1 July 2014
April 2014	Reporting	For financial years starting on or after 1 January 2014 of existing vehicles and vehicles launched after 1 May 2014. The 2014 interim reporting guidelines are applicable from the third quarter of 2014.
April 2014	Property valuation	For financial years starting on or after 1 January 2014 of existing vehicles and vehicles launched after 1 May 2014. For interim reports, the 2014 valuation guidelines are applicable from the third quarter of 2014.
April 2014	INREV NAV	For financial years starting on or after 1 January 2014 of existing vehicles and vehicles launched after 1 May 2014. In the event INREV NAV has already been provided for the first quarter 2014, the revised INREV NAV guidelines are applicable from the second quarter of 2014. In any event, the INREV NAV computed for the end of the second quarter of 2014 should assume the INREV Guidelines 2014 have been applied since 1 January 2014.
April 2014	Fee and expense metrics	For financial years starting on or after 1 January 2014 of existing vehicles and vehicles launched after 1 May 2014. In the event fee and expense metrics have been computed for the first quarter 2014, the revised fee and expense metrics guidelines are applicable from the second quarter of 2014.
April 2014	Liquidity	All vehicles launched after 1 July 2014
April 2014	INREV data delivery	All data provided to INREV after 1 July 2014

Managers should describe the impact of the adoption of the INREV Guidelines 2014.

Corporate governance

The corporate governance module was most impacted by the restructuring of the INREV Guidelines and the move away from the life cycle approach. The underlying principles have remained the same as in the previous INREV Guidelines. Changes made to the guidelines include additional best practices, mainly for managers. These improvements addressed the following matters:

- the confirmation of compliance with constitutional terms;
- the termination of the manager’s mandate;
- the equity issue and redemption mechanism;
- the implementation of internal controls in the manager’s own operations.

In addition, the corporate governance module includes:

- detailed best practices on risk management activities for investors, managers, and non-executive officers;
- further guidance on club deals and joint ventures, and open end and closed end vehicles.

The existing corporate governance self-assessment tool has now been embedded more strongly into the INREV Guidelines as it provides further insight to investors, managers and non-executive officers on the implementation of the requirements and best practices.

The corporate governance requirements and best practices do not conflict with the Alternative Investment Fund Managers Directive (AIFMD) requirements. Additional guidance has been embedded into the best practices to support managers in the implementation of the best practices where AIFMD compliance is required.

Reporting

The reporting requirements have been clarified and reorganised to better reflect the structure and content of the investor reports based on a survey of existing best practices. Reporting requirements, for convenience, have been grouped into the following sections:

- Fund documentation for reporting framework;
- Content and frequency of reporting;
- General vehicle information, organisation and governance;
- Capital structure and vehicle-level returns;
- Manager's report;
- Property report;
- Financing and financial risk management;
- Other disclosure requirements;

The main changes to the previous reporting requirements are:

- the reporting module includes interim reporting requirements;
- the Key Performance Indicators ("KPIs") of the vehicle that are included in the Standard Data Delivery Sheet ("SDDS") now form part of the reporting framework;
- the interim and annual reporting requirements emphasise the need to provide explanations, comments and analysis to investors on the KPIs of the vehicle;
- they have been aligned with regulatory requirements, such as AIFMD, and recent trends in investor reporting.

Property valuation

The property valuation requirements have been updated and include the following changes:

- the external valuer is specifically required to have appropriate professional qualifications and competence to perform the property valuation;
- the requirements emphasise the need for management to implement a review and approval process of the valuation proposed by the valuer;
- further guidance on the valuation is included on a case by case basis if there is an impact on the market value due to a liquidation situation or a winding-up.

INREV NAV

The wording of the INREV NAV guidelines has been significantly modified to help users better understand the requirements to compute the INREV NAV.

In addition, the following changes have been made to the INREV NAV methodology:

- Managers are now required to adjust the NAV for the effect of:

    - subsidiaries having a negative equity (non-recourse) when certain conditions are met;
    - measuring to fair value of other investments in real assets;
    - measuring to fair value of construction contracts for third parties.

- The timing of disposal cost accruals has been clarified;
- The existing Q&A on the effect of reclassifying shareholder loans and hybrid capital instruments (including convertible bonds) and revaluation to fair value of indirect investments not consolidated has been integrated into the requirements.

The distinction between the NAV for both open end and closed end vehicles has been removed.

More detailed disclosure requirements on the assumptions used to determine the INREV NAV are now included in the INREV Guidelines.

Fee and expense metrics

Fee and expense metrics requirements have been slightly modified compared with the previous guidelines and have been updated as follows:

- the fee and expense metrics now follow the nature of costs rather than the identity of the payee;
- disclosure requirements are more precise, particularly when a single fee is charged to cover a variety of activities;
- the requirement to compute and disclose the return reduction metric on an annual basis has been removed;
- the allocation of costs between management, vehicle, property and finance/exempt expenses has been clarified to better reflect the costs incurred by real estate vehicles.

Liquidity

As with the old exit guidelines, the liquidity module provides best practices on rights and obligations in secondary market transactions. The best practices on this matter have remained similar to the 2008 INREV Guidelines.

However, the liquidity best practices have been significantly upgraded on the issue and redemption of vehicle equity, and particularly on transparency to investors with respect to those matters and details of any pricing mechanisms. In addition, the liquidity guidelines now include detailed requirements and best practices to be adopted by managers for both vehicle winding-up and life extensions.

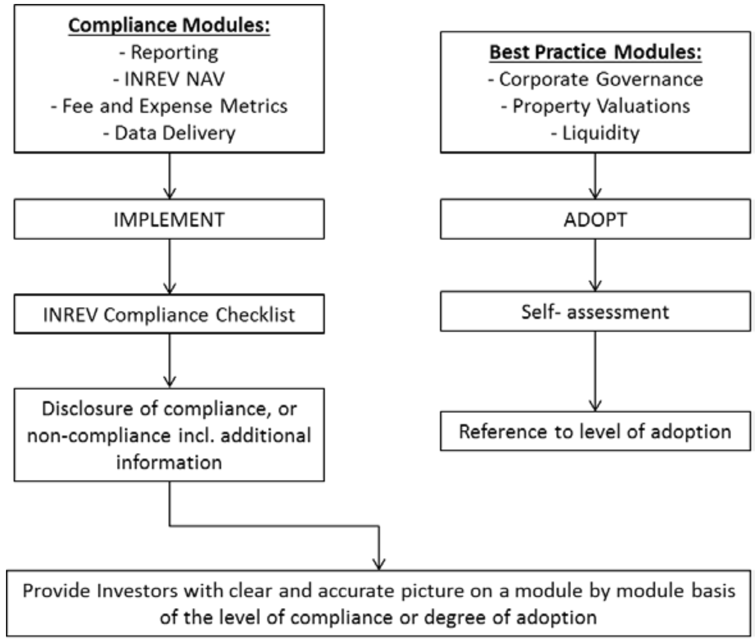
3. INREV Guidelines Adoption and Compliance Framework

The INREV Guidelines are designed for non-listed real estate vehicles for institutional investors. Since non-listed vehicles can differ considerably, INREV provides a modular approach to guide investors and managers in agreeing on an appropriate level of adoption of INREV best practices and in deciding on the level of compliance with INREV requirements for individual modules.

INREV's best practice frameworks developed for the modules of corporate governance, liquidity and valuation, are qualitative in nature and individual vehicles will adopt them in different ways. INREV's objective is to ensure that investors are provided with a clear and accurate description of the corporate governance, liquidity and valuation frameworks of a given non-listed vehicle. A self-assessment questionnaire has been developed for the corporate governance module to help managers to make a qualitative assessment in relation to corporate governance.

In contrast to best practices, INREV's requirements in the modules covering INREV NAV, reporting, fee and expense metrics and INREV data delivery, are more technical in nature. These requirements leave no room for different interpretation: the requirements are either followed, or not. In addition, in the reporting and fee and expense modules, some of the INREV Guidelines are recommendations rather than requirements. Although INREV would encourage members to follow such recommendations, they are not required to be followed in order to claim full compliance with the INREV reporting module.

The level of compliance can be assessed with the help of INREV Compliance Checklists. The on-line INREV Guidelines offer a filter functionality. After selecting specific vehicle characteristics, the INREV Compliance Checklist will be customised to include all the requirements that need to be followed to be in compliance with the guidelines, as well as providing an overview of the applicable recommendations. If all of the requirements for an individual module are fully implemented, the manager can disclose full compliance with the relevant module. If the requirements of a module are not fully met, the manager should disclose that the vehicle does not comply with that module of the INREV Guidelines and state the reasons for non-compliance including any additional information relevant to an investor's understanding.



In all cases, managers should present investors with a clear and accurate picture of the degree of best practice adoption and level of compliance with the INREV requirements. The fund documentation should describe, on a module by module basis, the extent to which the vehicle aims to be in compliance with INREV Guidelines.

The full adoption of best practices and compliance with requirements are likely to be most relevant to vehicles closest to a ‘core’ strategy marketed to a wide range of institutional investors.

The level of adoption and compliance with the INREV Guidelines is a matter to be discussed during the launch process of the vehicle. INREV does not provide any assurance on the degree of adoption of best practices or on the level of compliance with requirements for individual vehicles.

The legal framework applicable to individual vehicles may require third party assurance on elements of compliance with INREV Guidelines, for instance where the legal NAV of the vehicle is the INREV NAV. We recommend that investors and managers discuss and agree the nature of such assurance as part of the launch process.

The INREV adoption and compliance framework is summarised below. The framework includes references to tools which can be used to assist in the application of the guidelines.

Best Practice Modules				
INREV Module	**Compliance objective**	**Self-assessment process**	**Disclosure**	**Oversight and assurance**
1. Corporate governance	Managers and investors should refer to and consider adopting INREV corporate governance best practices when designing and implementing an oversight framework for a specific vehicle.	Managers should evaluate the level of adoption of INREV best practices using the corporate governance self-assessment tool.	Managers should describe in their annual report and fund documentation their corporate governance practices and the degree to which they adopt INREV best practices.	Management and non-executive officers should review the adequacy of the description of the corporate governance framework.
3. Property valuation	Managers should follow the valuation best practices when determining the fair value of the property portfolio and prepare required disclosures to investors.	Managers should evaluate the level of adoption of INREV property valuation best practices.	Managers should describe their property valuation policies and the degree to which they have adopted INREV valuation best practices in their annual report and fund documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the property valuation best practices.
6. Liquidity	Managers and investors should refer to and consider adopting INREV liquidity best practices when designing non-listed vehicle products.	Managers should evaluate, using the relevant self-assessment questionnaire, the level of adoption of INREV liquidity best practices.	Managers should describe their liquidity policies and the degree to which they have adopted INREV best practices in their annual report and fund documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the liquidity best practices.

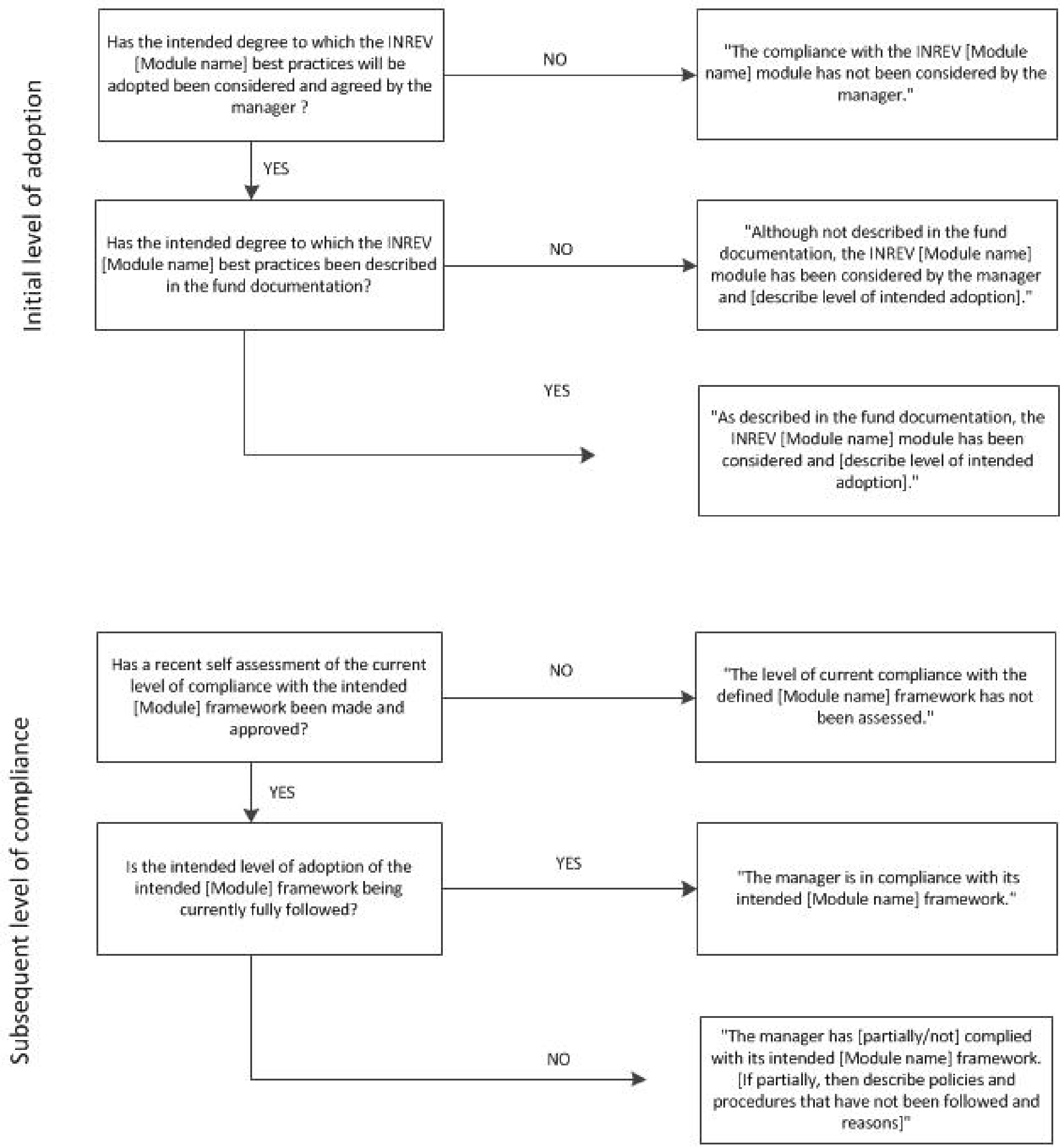
Compliance Framework				
INREV Module	**Compliance objective**	**Self-assessment process**	**Disclosure**	**Oversight and assurance**
2. Reporting	Managers should make disclosure corresponding to all relevant INREV reporting requirements and recommendations as a component of their annual or interim reports to investors.	Managers should evaluate the level of compliance with INREV requirements and recommendations, using the INREV compliance checklist.	Managers should include all information corresponding to applicable INREV reporting requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with reporting requirements. Auditors could give negative assurance on the degree to which INREV reporting requirements and recommendations are complied with.
4. INREV NAV	Managers should calculate and disclose an INREV NAV in accordance with INREV requirements.	Managers should evaluate the level of compliance with INREV NAV requirements, using the INREV NAV compliance checklist.	Managers should include the INREV NAV in their annual and interim reports along with required disclosures. Fund documentation should include the required information.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with INREV NAV requirements. Depending on circumstances, auditors can give assurance or negative assurance on the INREV NAV and level of compliance with related disclosure requirements.
5. Fee and expense metrics	Managers should calculate and disclose fee and expense metrics in accordance with fee and expense metrics requirements.	Managers should evaluate the level of compliance with INREV fee and expense metrics requirements using the INREV compliance checklist.	Managers should include information corresponding to INREV fee and expense metrics requirements in their annual reports and in the fund documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with fee and expense metrics requirements. Auditors could give negative assurance on the level of compliance with fee and expense metrics requirements.

7. INREV data delivery	Managers should provide information to INREV in accordance with INREV data delivery requirements.	Managers should evaluate the level of compliance with INREV data delivery requirements using the INREV compliance checklist.	Managers should provide INREV with all relevant information corresponding to INREV data delivery requirements.	Management and non-executive officers should review the basis and appropriateness of the compliance with INREV data delivery requirement disclosure to INREV.

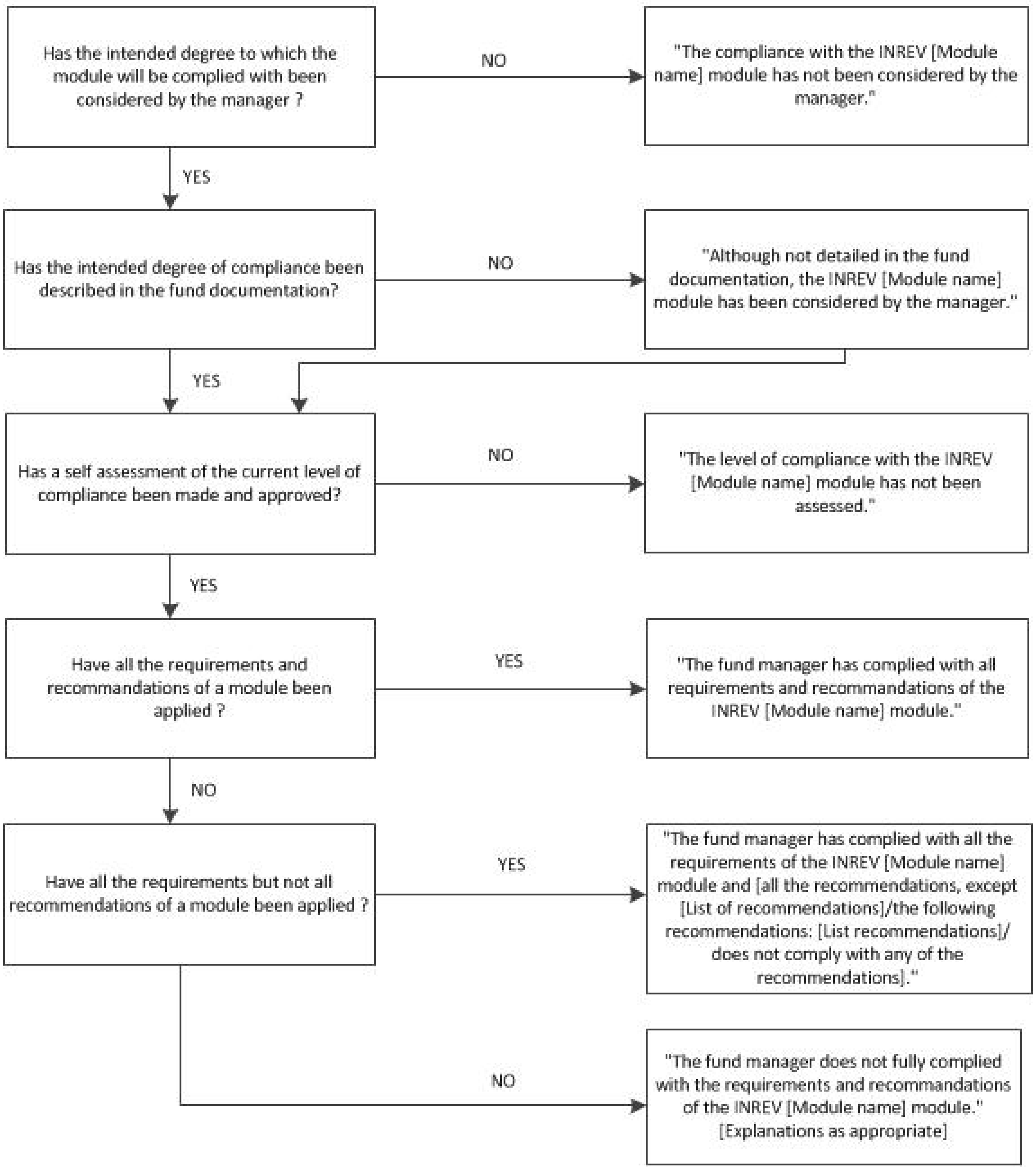
3.1. Tools and examples

3.1.1. Compliance decision tree

Best practice modules



Compliance modules



3.1.2. Tool – INREV compliance checklist

Available on INREV website (www.INREV.org/guidelines)

3.1.3. Example - Statement of level of adoption of INREV Guidelines

Management has assessed the degree to which the best practices of INREV's corporate governance, valuation and liquidity frameworks have been adopted and followed by the vehicle. In addition, Management has assessed the level of compliance with INREV's reporting, NAV and fee and expense metrics modules. The results of such self-assessment are summarised below:

INREV Module	Guidelines	Level of adoption or compliance
1	Corporate governance	Although not described in the fund documentation, the INREV corporate governance module has been considered by the manager. The intended framework partially complies with the INREV corporate governance best practices. All best practices have been adopted except for the fact that investors are not able to terminate the contract of the manager without cause. The vehicle formally assessed at the end of the financial year that it is currently following its intended corporate governance framework.
2	Reporting	Although not detailed in the fund documentation, the INREV reporting module has been considered by the manager. The manager has complied with all the requirements of the INREV reporting module.
3	Property valuation	As described in the fund documentation, the INREV valuation framework module has been considered. The manager has defined a valuation framework which fully adopts INREV valuation best practices. The level of current compliance with the defined valuation framework was last formally assessed during the financial year when it was determined that the vehicle was in compliance with all elements of the intended valuation framework.
4	INREV NAV	The manager has complied with all the requirements of the INREV NAV module, except for the fact that assumptions used to determine the fair value of deferred taxes are not fully disclosed for confidentiality reasons.
5	Fee and expense metrics	The manager has not fully complied with the requirements and recommendations of the INREV fee and expense metrics module. The manager does not compute and disclose the forward-looking REER at vehicle launch. All other requirements and recommendations have been complied with.

INREV Module	Guidelines	Level of adoption or compliance
6	Liquidity	As described in the fund documentation, the INREV liquidity framework module has been considered. The manager has defined a liquidity framework which fully adopts INREV liquidity best practices. The manager formally assessed in at the end of the financial year that it currently follows the defined liquidity framework.
7	INREV data delivery	The manager is in compliance with the INREV data delivery module.

4. Module 1 - Corporate governance

4.1. Introduction

INREV's objective is to establish common and workable standards of corporate governance for non-listed European real estate vehicles with institutional investors through principles of corporate governance. This section also sets out guidance on how to apply the principles.

The constitutional terms relating to each investment vehicle should address how the principles and best practices should be applied by those involved in the management of the vehicle, stated as fully and completely as possible, thus creating binding contractual obligations for compliance by the vehicle and its investors. Local legislation in different jurisdictions will always override the principles, which do not have force of law.

These principles and best practices of corporate governance represent a generic framework and can be applied across a wide range of real estate vehicles. The manager referred to in these guidelines is often an external entity and may be subject to regulation by national laws or the Alternative Investment Funds Managers Directive (the "AIFMD"). In some situations, the manager of the vehicle may also be an internal function (e.g., a self-managed vehicle). If the vehicle is considered an Alternative Investment Fund ("AIF"), the AIFMD requires an alternative investment fund manager ("AIFM") to be appointed. The AIFM must, as a minimum, carry out risk and portfolio management, and must also perform other functions such as accounting, compliance and valuation.

There is overlap between the specific governance requirements of the AIFMD and these more principle-based governance best practices, but there are no inconsistencies. Where relevant, these overlaps are referred to in this document.

It is the responsibility of the board of each real estate vehicle to assess if they are within the scope of the AIFMD and understand any other legal requirements applicable to the vehicle. The organisation of real estate investment platforms varies significantly and may be designed to serve a wide variety of real estate vehicles such as "in-scope" AIFs or "out-of-scope" vehicles for the purpose of the AIFMD, below-threshold and grandfathered AIFs, single-investor segregated accounts or joint ventures. If the vehicle is in the scope of the AIFMD an AIFM must be appointed. The board of the vehicle should monitor and oversee that the AIFM has properly implemented the management functions as required by the AIFMD.

As well as the structure and relationship of the manager with the relevant real estate vehicle, certain service provider arrangements with the real estate vehicle (e.g., external valuer, depositary, auditor, administrator) may also vary depending on the jurisdiction and regulatory status. Oversight over such service provider relationships in conjunction with its manager is another responsibility of either the board of the real estate vehicle or the AIFM under the AIFMD.

If the vehicle is inside the scope of the AIFMD, the manager should identify and document key functions, including if and how some of them are delegated. A summary of these functions are:

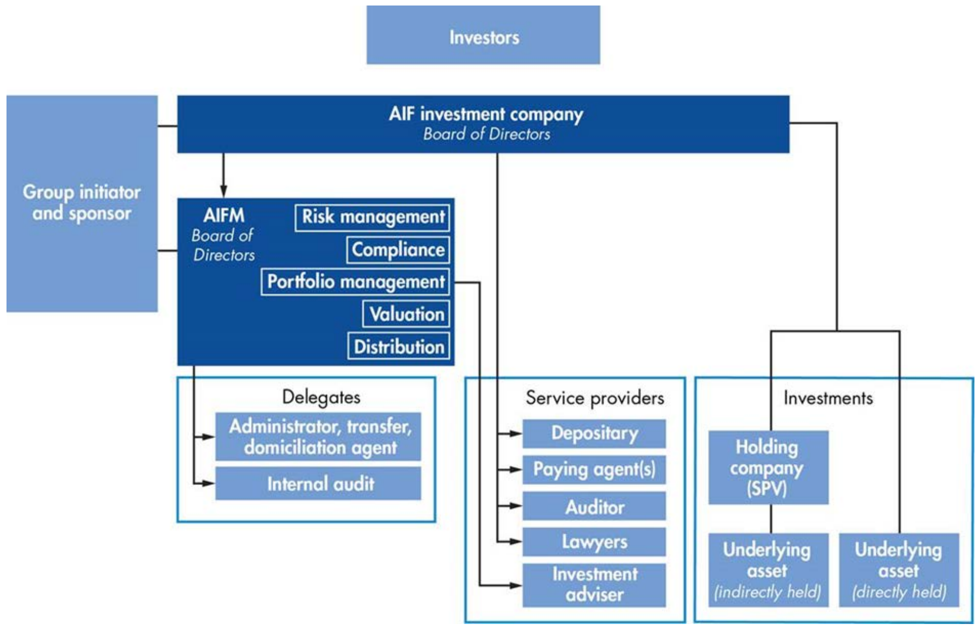
- *A portfolio manager*: The portfolio manager implements the investment process in compliance with the fund documentation. This process can be run with the support of an investment advisor to, for instance, identify and qualify target investments and make recommendations to the portfolio manager. It may also involve an investment committee, if it exists, at various stages of the process. If the vehicle is within the scope of the AIFMD, portfolio management must be undertaken by the AIFM;
- *A risk manager*: Generally speaking, the manager of the vehicle should ensure that the risk profile of the vehicle corresponds to the objectives of the vehicle as well as establishing and implementing quantitative and qualitative risk limits. The manager should then implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to the vehicle strategy. If the vehicle is within the scope of the AIFMD, the risk management function must be undertaken by an AIFM;
- *An internal audit function*: The governing body or the supervisory function of the manager must receive on a regular basis written reports on matters of compliance, internal audit and risk management indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies. The internal audit function should be independent from the portfolio management function;
- *A compliance officer*: The governing body, the senior management and, where it exists, the supervisory function of the manager, are responsible for ensuring that the vehicles it manages are in compliance with their legal and contractual obligations and more specifically:
  - must assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the obligations laid down in the AIFMD;
  - must take appropriate measures to address any deficiencies.
- *A valuer*: the board of the manager should appoint an external valuer, although the AIFMD allows a valuation to be undertaken by the AIFM in certain circumstances.

In relation to the AIFMD, specific oversight responsibilities of the AIFM's governing body relevant to the risk management process include:

- a responsibility to be notified in a timely manner by the permanent risk management function when it considers the AIF's risk profile inconsistent with the risk limits or sees a material risk that the risk profile will become inconsistent with these limits;
- a responsibility to receive regular updates from the permanent risk management function;
- a responsibility to monitor the consistency between and compliance with the risk limits and the risk profile of the AIF as disclosed to investors;
- a responsibility to monitor the adequacy and effectiveness of the risk management process, indicating in particular whether appropriate remedial measures have been or will be taken in the event of any actual or anticipated deficiencies;

- a responsibility to review the functional and hierarchical separation of the risk management function.

Here is a simplified example of an externally managed AIF:



In summary, although the primary responsibility for the oversight of these functions is undertaken by the board of the AIF through the process of appointing and monitoring the AIFM (whether internal or external to the AIF), the board of the AIF must understand how the AIFM is organised and how the AIFM monitors compliance with its legal obligations, in order to place reliance on it pursuant to the AIF board's oversight responsibilities.

These best practices are not expected to impede the manager in the performance of its duties and obligations. As principle-based guidelines, they can be applied to different types of real estate vehicles: non-listed real estate equity funds, funds of funds, joint ventures, club deals, real estate debt funds, open end or closed end, internally or externally managed. Further explanation is provided describing how best practices should be interpreted in the different circumstances of clubs and joint ventures, and open end or closed end vehicles. In addition, the previously published self-assessment tool has been included as further guidance.

It is for the manager, together with investors, to determine to what extent the investment vehicle will adopt these best practices. INREV would expect that the manager will adopt the best practices as a matter of policy from the inception of the vehicle. Thereafter the manager should assess the extent to which the vehicle adheres to the best practices, and should report on compliance, explaining the reasons for any non-compliance with the best practices. Institutional investors will then be able to form their own views on the corporate governance of the vehicle. These guidelines address the corporate governance within the vehicle, not the corporate governance within the manager.

The role of the non-executive officer or investor representative

Investors usually wish to exercise some degree of influence or control over certain decision-making relating to the governance of a vehicle, either through direct participation (such as on an advisory committee) or indirectly through an appointed independent non-executive officer representing investor interests. This role is referred to in this document as that of non-executive officer or investor representative usually on a supervisory or advisory board or committee.

Non-executive officers or investor representatives may act on behalf of all investors as a group through a range of different forms, including a wholly independent management committee, an advisory or supervisory board or committee, or non-executive officers on a unitary board. The size, the specific roles, the method of appointment and the term of service can vary significantly; it is not proposed to specify such details within the corporate governance guidelines.

In most vehicles, it is the current practice for investor representatives to fulfil this role. If this is the case, they are not considered truly independent as usually understood within corporate governance, and do not necessarily act for all investors collectively.

In other vehicles, it is common practice, in order to achieve good corporate governance, that investors appoint independent officers, who have the appropriate market knowledge and experience to represent their interests. Such independent officers have a responsibility both to the investors who have arranged their appointment and to the relevant vehicle. Non-executive officers are likely to add most value in circumstances where the number of investors is such that not all investors can be represented on an advisory committee; in this way the risk that smaller investors are disenfranchised by larger investors is reduced.

Non-executive officers or investor representatives perform a function which falls between that of the investors and the manager. Their main function is to see that investors’ interests are protected by monitoring how the vehicle performs relative to the business plan and whether it complies with the constitutional terms.

Given the related costs and the potential legal liability attaching to non-executive officers or investor representatives, the number of such officers, and whether they are wholly independent or not, will depend on matters such as:

- the identity and standing of the manager;
- the size of the vehicle;
- the complexity and location of the investments;
- the number and level of sophistication of investors.

In most jurisdictions the directors of a vehicle (whether executives of the manager, independent non-executive directors or other investor representatives) owe a collective fiduciary duty to the vehicle and all investors equally, and this duty cannot be delegated. It is acknowledged, however, that from a corporate governance viewpoint directors may behave differently depending on their perspective. Therefore, these best practices cover the conduct of non-executive officers or investor representatives separately from investors and managers.

The best practices for investors are relatively limited in content, since they assume that investors exercise their representation through non-executive officers or investor representatives, with the decision-making relating to certain specific issues being reserved to the non-executive officers or investor representatives and others to investors alone.

4.2. Principles

P.1. **Compliance with the law** - The investment vehicle and its manager should always comply with the relevant legislation and regulations applicable in the jurisdiction in which it is established.

P.2. **Compliance with constitutional terms** - The vehicle's constitutional terms should clearly articulate the key corporate governance principles which should always be applied.

P.3. **Skill, care, diligence and integrity** - Investors, investor representatives, non-executive officers and managers should manage the protection of investors' interests and their investments, with due skill, care, diligence and integrity, and should ensure adequate levels of human, financial and operational resources.

P.4. **Accountability** - Managers, non-executive officers, investor representatives and investors, and those they have delegated to, should always be accountable for their actions.

P.5. **Transparency** - All relevant information relating to the vehicle should be communicated in a way which is clear, fair, complete, timely and not misleading.

P.6. **Acting in investors' interests, including alignment of interests and conflicts of interest** - Vehicles should be run in the interests of all investors. Where they arise, conflicts of interest should be managed fairly between investors, vehicles and managers; the alignment of interests between investors and managers can reduce the risk of such conflicts.

P.7. **Confidentiality** - Information regarding vehicles and investors' interests in vehicles which is not publicly available should always be treated confidentially.

4.3. Guidelines

	Frequency	
	Annual	Interim
RG.12. **Describe the vehicle governance framework and the organisation of management and administration. For example, identify the AIFM, administrators, trustees, depositories, general partners, risk managers, investment advisors, portfolio managers, asset and property managers, valuers and other key functions as appropriate. Identify and discuss vehicle governance and oversight frameworks such as the use of independent directors and investor or other special committees, and how they operate**	X	Describe material changes
RG 13. **Describe the structure and governance principles within the manager organisation (rather than vehicle) for instance on potential areas of conflict between alternative capital sources under management, conflicts management processes, Investment Committee composition and processes, alignment through promote distribution etc.**	X	Describe material changes
RG 14. **Describe the level of adoption of INREV corporate governance best practices.**	X	Describe material changes
RG.15 **Annual and interim reports should describe any material changes to the level of compliance with the corporate governance framework defined in the fund documentation.**	X	X

4.3.1. Compliance with the Law

CG.1. **Compliance with the Law**

CG.1.1. **Guidelines of conduct as a manager**

Vehicles must comply with all laws and regulations applicable in the jurisdiction in which they are established.

The manager should ensure that the vehicle complies with all laws and regulations.

The manager should confirm to the vehicle, the non-executive officers and investors that the vehicle is compliant with applicable laws and regulations.

The manager has primary responsibility for compliance by the vehicle with applicable laws and regulations, including AIFMD, anti-money laundering regulations and tax legislation.

The manager should have in place appropriate systems and processes to monitor compliance and should hold regular meetings with the vehicle, non-executive officers, investor representatives and, if appropriate, investors.

The manager should ensure that it has the necessary systems to monitor compliance, that the vehicle is compliant with the laws applicable in the jurisdiction in which it has been established, and that it can continue to operate without risk of breach of law. The manager should also consider the structure of the vehicle, and illustrate that it has been structured in such a way as to be tax efficient. The manager is normally expected to meet with the vehicle and non-executive officers or investor representatives, and, if the issue is sufficiently material, with investors, to brief them on relevant changes in law, including tax legislation, where these are likely to affect the vehicle.

AIFMD specific requirements: If an AIF appoints an external AIFM to act as its manager, the board of the AIF needs to perform due diligence on the competencies of the AIFM and monitor ongoing performance. *As described in the introduction, the structure and legal responsibilities of various entities in an AIFMD-regulated platform, and in particular the relationship between an AIF and its AIFM can vary significantly. For instance, factors such as the design of the management operating model and the level of delegation in the management functions are key elements to understand. It is expected that the corporate governance framework takes into account these arrangements. The work of the compliance officer at the level of the AIFM in particular is an important function to consider when applying this principle at the level of the AIF.*

The AIFMD requires that the manager establish and maintain a permanent risk management function. It should be functionally and hierarchically separate from the operating functions of the manager, including portfolio management.

CG.1.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers or investor representatives should ensure that the manager has in place adequate systems to monitor compliance with applicable laws and regulations.

Non-executive officers or investor representatives have a role in monitoring compliance, by, for example, receiving regular reports from, and having regular meetings with, the manager. Non-executive officers may themselves incur liability in certain jurisdictions through holding their office. They should have the ability to seek separate legal advice paid for by the vehicle, if they consider this advisable or necessary. The vehicle should also provide insurance cover for non-executive officers if it is not otherwise available.

AIFMD specific requirements: *the review of the non-executive officer should cover the scope and results of processes put in place to monitor compliance with laws and regulations at the level of the AIFM on behalf of an AIF.*

CG.1.3. **Guidelines of conduct as an investor**

The investor should support the manager in ensuring that the vehicle is compliant with applicable laws and regulations.

The manager on behalf of the board of the vehicle has primary responsibility for compliance with applicable laws and regulations. Investors may be required to provide information legitimately required by the manager (such as for tax purposes) and in such circumstances should do so promptly.

Investors always need to consider carefully all information supplied by the vehicle, the manager and non-executive officers, take due note of any identified potential risks and raise questions with the manager or non-executive officers whenever appropriate, including any concerns regarding compliance, or failure to comply, with applicable laws and regulations.

4.3.2. Compliance with constitutional terms

CG.2. **Compliance with constitutional terms**

CG.2.1. **Guidelines of conduct as a manager**

The manager should establish systems and processes to ensure that the constitutional terms are monitored and adhered to, and should confirm to the vehicle, non-executive officers, investor representatives and investors that the vehicle is compliant with its constitutional terms.

The contractual obligations of the manager will normally include the obligation to ensure compliance by the vehicle with its constitutional terms. These will usually be disclosed to investors and potential investors through a prospectus or information memorandum, which would include the investment strategy for the vehicle and the initial business plan.

The manager needs to be fully aware of the constitutional terms, and therefore able to confirm to the vehicle, non-executive officers, investor representatives and investors that the vehicle is compliant with its constitutional terms. The constitutional documents of the vehicle should also set out the remedies that are available to investors and others if there is a breach.

The constitutional terms should contain a clear investment policy setting well-defined restrictions and address how these principles and best practices should be applied in practice by those involved in the vehicle. They should be stated as fully and completely as possible, thus creating binding contractual obligations for compliance by the vehicle and its investors.

The manager should adopt the corporate governance best practices as a matter of policy from the outset of the vehicle. Thereafter the manager should assess the extent to which the vehicle complies with these best practices, and should report on compliance in the vehicle's annual report or elsewhere, explaining the reasons for any departures from the best practices. Investors will then be able to form their own opinions on the corporate governance of the vehicle.

The constitutional terms should set out the role of the non-executive officer, investor representatives and investors in relation to decision-making on reserved issues.

At the inception of a vehicle investors should agree to certain key parameters of the vehicle. Any changes in or breaches of such parameters would be decisions reserved for investors such as:

- the vehicle's constitutional terms;
- the vehicle's investment strategy;
- the timing of the vehicle and mechanisms for termination;
- the debt restrictions for the vehicle;
- the vehicle's liquidity mechanism;
- the removal or replacement of the manager; and
- the manager's fee structure.

Examples of reserved matters for non-executive officers or investor representatives may include:

- annual business plan;
- resolving conflicts of interest;
- changes to the external valuer and significant changes to the valuation methodology;
- changes to the external auditor, or to accounting principles or practices, where these are likely to have a significant impact on accounting treatment;
- matters considered by the permanent risk management function;
- appointment of external advisers to represent investors on specific issues, such as those relating to risk identification and management;
- changes in key personnel including appointment of replacements;
- any circumstances where there is the risk of investor liability;
- matters of confidentiality, in cases where the nature of the investment and the relative market are particularly sensitive.

For such reserved issues, investors would expect the manager to provide them, or non-executive officers or investor representatives, with appropriate information on which to base their decision, including any professional advice. Where there is to be prior consultation between non-executive officers and investors, investors would expect such consultation and subsequent reporting to be conducted on a timely basis.

As the number of investors in a vehicle grows, so a lesser threshold for key decisions is likely to be more appropriate. Open end vehicles with established liquidity mechanisms enabling investors to exit may offer less opportunity for influence or control by investors than closed end vehicles, where the investors' ability to exit the vehicle may be very limited.

While approval of the annual business plan may not be a matter reserved for the decision of non-executive officers or investor representatives, it is best practice for the manager to present the annual business plan to investors each year and establish a mechanism by which they can take feedback. In this way investors can make their views on the annual business plan known to the manager.
See section 2A of the self-assessment tool.

AIFMD specific requirements: *The compliance officer, under the supervision of senior management and the board of the AIF, is in charge of the systems and processes to ensure that the constitutional terms are monitored and adhered to. In addition, the portfolio manager should ensure that investment objectives, policies and parameters, and investment strategy are set for each AIF managed, and should oversee implementation of the investment strategy of each AIF.*

The constitutional terms should set out the way equity is issued and redeemed in a vehicle.

The manager should clearly articulate how equity is to be issued and redeemed. In the case of closed end vehicles, the issue of equity is likely to be through one or more initial closings where a number of investors subscribe at the same time, with redemption being towards the end of the life of the vehicle. In the case of open end vehicles, the process of issue and redemption of equity would be on a periodic basis. This may be annually, quarterly, monthly or even daily. The method of valuation of the equity should be clearly set out, including the underlying valuation and accounting principles applied. In some jurisdictions and vehicle structures, the mechanism is prescribed by legislation or government regulations.

Vehicle extensions provide an opportunity for the manager to review the corporate governance with investors.

Where the manager presents proposals for an extension of the life of the vehicle or a short run-off period to allow properties to be sold (which is not a fixed extension specified in the constitutional terms), this is in effect a new vehicle and provides an opportunity to review the constitutional terms of the vehicle.

CG.2.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers or investor representatives should ensure that the manager has in place adequate systems to monitor the extent of compliance with the vehicle's constitutional terms.

Since the manager is obliged to ensure that the vehicle complies with its constitutional terms, the role of the non-executive officer or investor representative is to monitor compliance through receiving reports and having regular meetings with the manager. The non-executive officer or investor representative should have the ability to engage advisors (at the cost of the vehicle) to assist with legal or technical matters.

AIFMD specific requirements: *the board of the AIF should take account of the oversight by senior management in the AIFM in monitoring the systems and procedures implemented by the compliance officer. Pursuant to this, the board of the AIF and senior management use the procedures performed and reports issued by the internal audit function in the AIFM.*

In circumstances where the termination of the manager's mandate is activated, the non-executive officers or investor representatives should oversee the process to ensure stability during the transitional period.

Non-executive officers (where independent of investors) are expected to act as mediators between investors and managers and to review with investors the consequences and costs associated with the process of manager change.

CG.2.3. **Guidelines of conduct as an investor**

Investors should fully understand the constitutional terms before investing. Acceptance of the constitutional terms is demonstrated by signing the subscription agreement.

In order to allow an investor to fully understand the investment, the constitutional terms should state the vehicle strategy and vehicle operation, the relationship and obligations between investors and the vehicle (including investor decisions, meetings and votes), and the liquidity opportunities for investors, including the eventual exit procedures upon winding-up, if appropriate. Investors are expected to comply with these obligations. The constitutional terms should be clear and unambiguous, and include the appropriate jurisdiction in which meetings to decide on important issues which are reserved to investors are to be held.

4.3.3. Skill, care, diligence and integrity

CG.3. **Skill, care, diligence and integrity**

CG.3.1. **Guidelines of conduct as a manager**

The manager should implement a code of ethics to demonstrate integrity.

The manager operates under a duty of care to the vehicle which has appointed it, and, through the vehicle, to investors. Investors, when deciding to invest, have usually relied upon the manager's track record, and its acknowledged standing, integrity and reputation. The manager needs to be able to satisfy both the vehicle and investors that it has performed its duties with the required degree of integrity, and that it has behaved ethically in its dealings with the vehicle, non-executive officers, investor representatives, the vehicle's external advisers and investors.

The manager should exercise the necessary control over its staff, external advisers and third party service providers to ensure that it can operate in the best interests of the vehicle and its investors.

The manager has to demonstrate to investors that it has the required skill to meet its obligations as a manager. This may include using third party service providers. See section 3C of the self-assessment tool. The manager is expected to have the required level and quality of expertise in terms of staffing, external advisers and third party service providers, as well as the necessary resources, in particular:

- adequate number of properly trained staff with the required level of experience, qualifications and skills;
- access to competent external advisers and expert service providers in the relevant jurisdictions, each of whom has an adequate system of internal controls and reports regularly to the manager on the effectiveness of such a control framework.

The manager should follow INREV guidance.

The manager, in order to show that it has acted and is acting diligently, both upon the establishment of the vehicle and during its life, is expected to be able to demonstrate to investors that it conducted the necessary due diligence (in line with the INREV due diligence protocol) upon the establishment of the vehicle, and that the vehicle is legally able to adopt its strategy to achieve its anticipated returns.

The manager should implement an agreed policy on risk identification and management for the vehicle, and establish and maintain a permanent risk management function.

The manager should identify risks early and manage them in a timely and proper manner. The manager needs to be able to show that potential risks are identified, monitored and managed quickly and diligently. This can only be achieved if the manager has competent staff, external advisers and service providers with the requisite expertise. The manager should also implement an adequate system of internal controls and ensure that information on the effectiveness of such a control framework is provided regularly to investors. See section 3D of the self-assessment tool.

AIFMD specific requirements: *The AIFMD requires that the boards of the AIF and AIFM and related committees (e.g., audit, investment, remuneration) collectively have the necessary skill set to understand and critically review all aspects of the business (e.g., portfolio and risk management, understanding of AIF asset classes and geographical scope, legal and compliance matters, oversight of delegates and service providers, risks of malpractice).*

CG.3.2. **Guidelines of conduct as a non-executive officer**

Non-executive officers should have the appropriate level of skill, training and access to external advisers and service providers to ensure that the interests of investors are protected.

Non-executive officers should be appropriately trained so as to be up-to-date on relevant issues, and to have access to the vehicle's external advisers and service providers. In particular, non-executive officers need to have the opportunity to discuss with the vehicle's external valuers matters regarding property valuations.

Non-executive officers should ensure the monitoring of internal controls, risk management and reporting.

Non-executive officers should satisfy themselves that the manager has in place secure systems which monitor the vehicle's activities, that adequate internal controls are established by the manager to identify and manage risks on a timely basis and in a proper manner, and that the manager complies with its reporting obligations in a regular and timely manner.

AIFMD specific requirements: *The governing body or the supervisory function of the AIFM, if any, must receive on a regular basis written reports on matters of compliance, internal audit and risk management indicating in particular whether appropriate remedial measures have been taken in the event of any deficiencies. Non-executive officers of the AIF should take account of such requirements in making their assessments.*

Non-executive officers should have regular meetings with the manager and other external advisers and service providers, and with investors (if appropriate, with the manager absent), when considered necessary.

Non-executive officers are expected to attend meetings with the manager, other external advisers and service providers, and with investors when circumstances require, and to refer to investors' matters of concern. See section 3B of the self-assessment tool. They may also need to call upon independent professional advice. To ensure that non-executive officers are able to act free from influence by vehicles or managers, it is necessary that they have the opportunity to discuss freely and openly with investors (without the manager being present) matters of a particularly sensitive nature.

CG.3.3. **Guidelines of conduct as an investor**

Investors should employ staff or other resources with the requisite market experience, skills, expertise and knowledge.

Investors need to ensure that they and their representatives have had the appropriate training and are up-to-date with relevant developments, so as to be in a position to seek the appropriate information from the vehicle or the manager in understanding the performance and development of the vehicle. Investors should act diligently when requested to consent to proposals made by the manager, and should respond in a timely and proper manner.

The constitutional terms of the vehicle should contain provisions dealing with circumstances in which investors fail to meet their obligations to the vehicle. See section 3A of the self-assessment tool.

Investors should act diligently to assess and monitor the identification and management of risks.

Investors should obtain from the manager, before investing, information they consider necessary to satisfy themselves that the vehicle strategy is appropriate, that the risks are appropriate relative to the rewards, and that the manager has the requisite experience and resources (human, financial and information) to be able to deliver the expected returns. INREV has published a recommended questionnaire for investment evaluation to assist investors in their due diligence investigations.

Investors should regularly review the performance of non-executive officers, and should periodically ratify their reappointment.

Investors will need to be satisfied that non-executive officers are properly performing their role to protect the interests of investors and so should assess their performance annually.

4.3.4. Accountability

CG.4. **Accountability**

CG.4.1. **Guidelines of conduct as a manager**

The manager should demonstrate how it is accountable to investors.

The manager is accountable to the vehicle and the investors as a whole. Investors will rely on the manager to ensure that the objectives established at the outset and investment plans are achieved and that the vehicle operates in accordance with its constitutional terms and all applicable laws and regulations. The manager can demonstrate this accountability, for example, by being available, upon reasonable notice, to meet with non-executive officers, investor representatives and investors to review and discuss matters relating to the vehicle. The manager would also normally be expected to exercise control over, and maintain close relations with, the external advisers and service providers, including external auditors, valuers, portfolio and property managers and risk managers.

The manager should be indemnified by the vehicle, except where the manager is negligent.

The manager should be willing to accept a certain level of liability for its actions but would generally expect to be indemnified by the vehicle for losses where the manager has not been negligent or in breach. See section 4A of the self-assessment tool.

The manager should be able to be terminated with or without cause.

The ability of the investors to terminate the contract of the manager, both for cause and without cause, is an indication of the extent to which the manager is accountable. Greatest accountability is achieved with a no-fault termination mechanism, after a special resolution of investors. Reasonable compensation may be due to the manager depending on the circumstances of the termination. See sections 4B and 4C of the self-assessment tool.

Investors will expect protection against circumstances where the performance of the manager (whether measured quantitatively or qualitatively) is sub-standard. In such circumstances it may be appropriate to establish a process of dialogue with a timetable between the manager and the investors (through the non-executive officers or investor representatives) to address such underperformance. In circumstances where the plan agreed from such a process is not followed by the manager then the investors may consider suspension of the investment period or even termination of the manager after a special resolution.

CG.4.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers and investor representatives should be accountable to investors.

Non-executive officers and investor representatives are accountable to investors in their role as monitors of the performance and compliance of the vehicle. This may be by participation on a non-executive board or advisory committee. Such accountability should, however, not be coupled with liability to other investors other than in the case of wilful misconduct or bad faith on the part of the non-executive officer or investor representative. See section 4D of the self-assessment tool.

CG.4.3. **Guidelines of conduct as an investor**

Investors should ensure that the manager and, where appropriate, non-executive officers are held accountable for the performance of the vehicle.

Investors are accountable to their own relevant bodies, but not to the vehicle, non-executive officers or the manager. They are, however, responsible for holding the manager and non-executive officers accountable. For example, they are expected to attend relevant investor meetings and consider carefully and diligently all information and reports supplied by non-executive officers, the manager and external advisers. They are expected to conduct themselves in such a way as not to be open to criticism that they have acted in an unethical manner.

4.3.5. Transparency

CG.5. **Transparency**

CG.5.1. **Guidelines of conduct as a manager**

The manager should make available to the vehicle, non-executive officers, investor representatives and investors, in a timely manner, all relevant information and reports.

During the life of a vehicle the manager provides information (including reports) relevant to the vehicle, in order to enable investors to understand the performance of the vehicle and its compliance with the vehicle strategy, and to be satisfied that it meets the objectives established in the business plan. See sections 5A and 5B of the self-assessment tool. Investors and non-executive officers need to be in a position to, for example:

- assess the performance of the vehicle against given targets, such as relative benchmarks;
- understand the progress compared to the business plan and forecasts;

- understand the risks in a vehicle and how they are being managed;
- satisfy themselves as to compliance with the vehicle's constitutional terms and applicable laws and regulations without imposing any obligation on investors themselves to monitor compliance);
- understand the extent and nature of investments and divestments and the consequent funding of transactions;
- understand the fees payable to the manager and the vehicle expenses charged directly.

The manager should respond in a timely and transparent manner to all reasonable questions and enquiries raised by non-executive officers, investor representatives and investors. Material events, such as a change in key personnel, should be reported to investors immediately.

The manager should have regard to INREV Guidelines on property valuations.

During the life of the vehicle the manager will provide investors, investor representatives and non-executive officers with property valuations. Investors would expect external property valuers to be independent. In order to ensure that valuations are adequately monitored, and that the interests of investors are protected, the rotation of external valuers upon the expiry of their mandates is encouraged, and the fees paid to external valuers should be structured in such a way as not to compromise the independence of valuations. See section 5C of the self-assessment tool.

The manager should report to investors on the extent of compliance with INREV corporate governance principles and guidelines including any circumstances in which best practice is not followed and the explanation as to why this is so.

The constitutional terms of a vehicle should set out the use of side letters, which should be disclosed to all investors.

We recognise that there may be circumstances in which different investors will have different arrangements with a vehicle. For example, larger investors may receive a discount on fees payable to the manager. The manager should set out how side letters and similar individual investor agreements will be dealt with. The manager should disclose the terms of such side letters, while recognising that certain investors may request anonymity in such matters. See section 5D of the self-assessment tool.

AIFMD specific requirement: *In case of an externally managed AIF, the AIFM is responsible for compliance with the transparency requirements of the AIFMD.*

CG.5.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers or investor representatives should be satisfied that procedures are in place to ensure that investors are in receipt of information prepared by the manager.

Throughout the life of the vehicle, the manager is under an obligation to ensure that all relevant information and reports are made available to investors, investor representatives and non-executive officers, in a timely, proper and comprehensive manner, so as to inform investors, investor representatives and non-executive officers on matters such as strategy, achievement of targets and the progress and performance of the vehicle. Non-executive officers and investor representatives have a role in seeing that the manager meets these obligations.

CG.5.3. **Guidelines of conduct as an investor**

Investors should feed back to the manager their precise information requirements, and whether they are being satisfied by the vehicle.

This should help ensure that the vehicle's reporting is managed as efficiently as possible.

4.3.6. Acting in investors' interests, including alignment of interests and conflict of interests

CG.6. **Acting in investors' interests, including alignment of interests and conflict of interests**

CG.6.1. **Guidelines of conduct as a manager**

The manager should demonstrate that its interests are truly aligned with those of investors through vehicle structures.

The vehicle is established to deliver investment performance to investors. The manager is expected to act in the interests of investors. As far as possible, this can be assured by creating structures in the vehicle to ensure the alignment of the manager's interests with those of the investors.

Alignment of interest may be achieved by the manager investing a meaningful amount in the vehicle. See section 6A of the self-assessment tool. INREV recognises that there may be circumstances in which co-investment by the manager may not be appropriate, however.

Alignment of interest may also be achieved through the fee structure, including payment of performance fees to the manager based on vehicle performance. This may not fully align the manager to downside risks, however. Any performance fee structure should incentivise the manager to behave in a manner consistent with the risk profile of the vehicle and should reflect the added value that the manager is expected to provide. For example, the element of manager remuneration related to performance is typically less for a core vehicle than for an opportunistic vehicle. See section 6C of the self-assessment tool.

Remuneration policies are required for those employees of the manager whose professional activities have a material impact on the investment strategy or the risk profile of the vehicle they manage. The remuneration policies should promote sound and effective risk management and not encourage risk-taking which is inconsistent with the risk profile of the vehicle.

The constitutional terms should set out the provisions to be applied in the event that key personnel leave the manager.

Where certain employees of the manager have been identified in the documentation as men or personnel, the constitutional terms will often contain specific provisions to cover the situation where these personnel leave the manager. The provisions may extend to the manager being prohibited from making further investments, or even face losing its mandate. See section 6B of the self-assessment tool.

The manager and the vehicle should implement a written protocol documenting how to handle conflicts of interest within the vehicle.

Conflicts of interest between the manager and the vehicle may arise in a number of circumstances, such as where:

- the manager (or another vehicle controlled by the manager, or a related party to the manager) competes with the vehicle to acquire assets;
- the manager (or another vehicle managed by the manager, or a related party to the manager) buys or sells assets from the vehicle;
- changes are proposed to the fee structure or other arrangements between the manager and the vehicle;
- the manager seeks to sell its interest in the vehicle;
- investors are in conflict over a decision that is required to be made by them.

Conflicts of interest may also arise with third party service providers. For example, the external valuer may make an offer to provide additional property services to a vehicle. This could potentially compromise the independence of its valuations.

When potential conflicts of interest arise, the manager should bring them immediately to the attention of the vehicle and the non-executive officers or investor representatives, and implement the agreed conflict procedure. The manager should always ensure that dealings in related-party transactions are on an arm's-length terms basis. For example, if the manager (or another vehicle managed by the manager) wants to compete with the vehicle to acquire assets, the manager should disclose this to the vehicle, together with a policy for ensuring fair treatment for all its clients. See section 6D of the self-assessment tool.

AIFMD specific requirements: *The governing body of the AIFM and, where it exists, the supervisory function must establish safeguards against conflicts of interest, regularly review their effectiveness and take timely remedial action to address any deficiencies. The board of the AIF should take account of such requirements when making its assessments.*

The vehicle should set out how all investors will be treated on new issues, redemptions and transfers of equity in the vehicle.

Conflicts of interest can arise whenever investors vary their holdings in a vehicle. The manager should ensure that the rules governing new issues, redemptions and transfers are clearly and transparently set out for all investors. Such rules should be in accordance with guidance provided in the INREV liquidity guidelines and should be fairly and consistently applied. Conflicts of interest can also arise for the manager in providing a service for secondary transfers between investors, and its role in raising new capital, if applicable. At the outset the manager should clearly articulate the role that it provides in respect of secondary transfers, including any fees charged or interaction with third party trading platforms or placement agents.

CG.6.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers or investor representatives should ensure that the manager demonstrates that its interests are aligned with investors' interests.

During the life of the vehicle, the role of the non-executive officer or the investor representative is to protect investors' interests. One way in which the non-executive officer or investor representative can do this is by ensuring that the manager's interests are aligned with those of the investors.

Non-executive officers should ensure that the manager has a written protocol documenting how conflicts of interest should be managed.

If conflicts are identified, non-executive officers should ensure that the manager implements the agreed conflict procedure. Non-executive officers may have to make decisions on behalf of the vehicle if the manager is conflicted. If non-executive officers are not satisfied that a conflict has been fairly and properly resolved, they would be expected to refer the matter to investors. Non-executive officers are expected to be actively involved in overseeing transactions between the manager and the vehicle, such as changes in the fee structure, and to be satisfied that the terms of such transactions are at arm's length and are reported to investors.

AIFMD specific requirements: *The governing body of the AIFM and, where it exists, the supervisory function must establish safeguards against conflicts of interest, regularly review their effectiveness and take timely remedial action to address any deficiencies. The safeguards and policies should take into account the operating model of the AIFM and the extent to which some activities are outsourced or delegated. Non-executive officers of the AIF should take account of such provisions when making their assessment.*

CG.6.3. **Guidelines of conduct as an investor**

The vehicle should be run in the interests of investors to deliver anticipated returns.

Investors should advise the vehicle and non-executive officers in a timely manner if they consider that the vehicle is not being run in their best interests.

Investors should disclose conflicts of interests to other participants in the vehicle and act appropriately.

Conflicts of interest between an investor and the vehicle may arise in a number of circumstances, such as where an investor competes with the vehicle to acquire assets or an investor buys assets from, or sells assets to, the vehicle. Investors need to act with integrity, and to disclose appropriate information to the particular vehicle, the manager and other investors, in a timely and proper manner. For example, if an investor competes with the vehicle, or buys an asset from, or sells an asset to, the vehicle, the investor would normally excuse itself from the relevant discussions in the vehicle or from receiving any information. In such circumstances, an investor may have to create 'Chinese Walls' so that different individuals or teams of people are able to act for the different parties.

AIFMD specific requirements: *the AIFMD also requires disclosure of investors' operating conditions that may involve any other material conflicts of interests and disclosures, when organisational arrangements made by the AIFM are not sufficient.*

4.3.7. Confidentiality

CG.7. **Confidentiality**

CG.7.1. **Guidelines of conduct as a manager**

The constitutional terms should set out the obligations of confidentiality assumed by the vehicle and its investors.

The manager will be aware of information relating to the vehicle, some of which may become publicly available, and some of which may be disclosed in order to be transparent. Information which is commercially sensitive to the vehicle, however, is expected to be treated as confidential and not to be disclosed widely. The constitutional terms may contain confidentiality undertakings, so that the vehicle passes on to its investors the duty to keep certain information confidential, and to refrain from acting on it.

The need to maintain confidentiality has to be balanced by the need to ensure transparency; if there is a conflict, the need for transparency should prevail. The constitutional terms should set out the rights of non-investors, such as potential investors and their advisors, to receive information without entering into a confidentiality agreement. Confidentiality provisions should not effectively prohibit investors exercising their rights under the constitutional documents, such as when engaging third party advisors. See section 7A of the self-assessment tool.

CG.7.2. **Guidelines of conduct as a non-executive officer or investor representative**

Non-executive officers and investor representatives should comply with confidentiality provisions in the constitutional documents.

Non-executive officers or investor representatives may be aware of confidential information relating to the vehicle, which is neither publicly available nor known to investors. If non-executive officers or investor representatives have received information relating to the vehicle which is commercially sensitive, they should observe the confidentiality provisions contained in its constitutional terms. If appropriate, non-executive officers should assist the manager in the disclosure of the information to investors.

CG.7.3. **Guidelines of conduct as an investor**

Investors should comply with the confidentiality provisions, particularly when seeking to dispose of their investment, and should not use confidential information for their own benefit.

Investors may be in possession of information which is not publicly available, and which has been communicated to them by the vehicle or the manager and which may be commercially sensitive. Investors intending to disclose potentially confidential information to third parties who are potential investors are expected to seek confidentiality undertakings satisfactory to and in favour of the vehicle from the relevant third parties. Investors may also involve the manager in discussions with these parties, and request that the manager delivers to potential purchasers such information as may reasonably be required.

4.3.8. Further guidance for club deals and joint ventures

Control over investments

Investors participating in club deals and joint ventures are usually seeking greater control over the strategy and activities of the vehicle in order to set focused investment strategies and to control the destiny of their investment. Investors are therefore more likely to want greater involvement in the decision-making of the vehicle than would normally be the case for a multi-investor vehicle. In addition to the matters set out in CG2.1. of the guidelines normally reserved for investors, investors are likely to want to control the other matters set out in CG2.1. that may be reserved for non-executive officers. In particular, investors are likely to want to have control over the timing of acquisition and disposal of individual property assets, so that their investment behaves more like a direct property investment. Under the AIFMD, however, investment activities should be carried out by the manager, and investors should ensure that their desire to control investments does not conflict with the requirements of the AIFMD.

Non-executive officers

In circumstances where a small number of investors are actively involved in the running of a vehicle, it would be expected that investors who participate in club deals and joint ventures would have the personnel resources to engage fully in the activities of the vehicle, without creating any management inefficiencies, such as delay in ratifying decisions. In these circumstances the role of the non-executive officer might not be relevant.

Role of the manager and fees

In club deals and joint ventures, the role of the manager may be that of asset manager, sourcing the assets and managing the day-to-day leasing and operational activities of the portfolio of properties. Fees may be less than for a multi-investor vehicle, given the reduced needs for vehicle management, as opposed to asset management. In addition, consideration should be given as to whether a performance fee to the manager would be appropriate, since the manager may not fully control the investment strategy, if the vehicle arrangements require approval of individual decisions by investors.

4.3.9. Further guidance for open end and closed end vehicles

In this section we deal with variations in the application of the corporate governance guidelines to open end and closed end vehicles. In practice there is not a clear division between these two categories as vehicles may have characteristics of both. Nonetheless we set out how the governance for a pure open end vehicle may be expected to vary from a pure closed end vehicle.

Liquidity mechanism for investors

Closed end vehicles would typically have a fixed life, and investors would normally expect to invest at the start of the life of the vehicle, and redeem their investment towards the end of the life, as the vehicle sells its assets and winds down. Investors may have the ability to sell their investment on the secondary market, but would not normally expect to do so.

Open end vehicles, in contrast, typically last for an indefinite period, and provide clear mechanisms for new investors to subscribe for equity, and for existing investors to exit from their equity position. Consequently, the constitutional terms governing subscription, valuation and redemption of equity in the vehicle must be clearly set out for all investors and prospective investors, along with the anticipated liquidity for investors. Such terms are likely to be more developed in open end vehicles than in closed end vehicles.

Valuation guidelines

Given the importance of the mechanism for subscribing for and redeeming equity in an open end vehicle, particular attention should be paid to the valuation and accounting principles applied. These valuation and accounting principles should be clearly set out in the constitutional terms and disclosed to any potential investors, including the frequency of such valuations. The vehicle should also follow INREV's methodology for calculating and disclosing the INREV NAV. The constitutional terms should describe how the price for equity subscription (bid price) and equity redemption (offer price) are related to the INREV NAV.

Control or influence in decision-making

The constitutional terms will set out the extent of control or influence delegated to non-executive officers and investors in the running of a vehicle. In closed end vehicles, where investors are likely to be committed to the vehicle for its entire life, investors may seek some control or influence over certain decisions, as set out in CG2.1. of the guidelines. The degree of control or influence offered to investors can be less in open end vehicles, however, based on the assumption that investors should have the opportunity to exit the vehicle if the investment strategy of the vehicle no longer meets their investment objectives. Since the liquidity of open-ended vehicles cannot be guaranteed, it constitutes good governance to also provide for key investor rights in open end vehicles.

No-fault termination clauses

One indication of accountability of the manager is the existence in the constitutional terms of a clause providing for no-fault termination of the manager. A no-fault termination clause is less common in open end vehicles than in closed end vehicles, since investors who no longer wish the manager to run the vehicle, and who would vote for a termination of the manager if such a mechanism were available, may exit the vehicle through redemption. As the liquidity in open end vehicles may not be fully available it constitutes good governance to also provide for no-fault removal provisions in open end vehicles.

Co-investment by the manager

One indication of alignment of interests with investors is the manager having a meaningful co-investment in the vehicle as an incentive for the manager to perform. Co-investment by the manager is likely to be less important to investors in an open end vehicle than in a closed end vehicle, if a proven exit mechanism is available to investors who may be concerned about the commitment of the manager to run the vehicle.

Performance fee terms

Another indication of alignment of interests with investors is a performance fee structure that incentivises the manager to act in a way that is in the interest of the investors. Performance fee structures should be designed to suit the risk profile of the vehicle. Open end vehicles are typically core, not opportunistic, and so it would be expected that the balance of fees to the manager will be more weighted to base fees than for a closed end vehicle. In addition, the bid/offer price mechanism should take account of any accrued but unpaid performance fee.

Conflicts of interest

AIFMD specific requirements: *The AIFM that manages an open-ended AIF shall identify, manage and monitor conflicts of interest arising between investors wanting to redeem their investments and investors wishing to maintain their investment in the AIF, and any conflicts between the AIFM's incentive to invest in illiquid assets and the AIF's redemption policy.*

4.4. Tools and examples

A corporate governance self-assessment tool as well as an example statement of compliance with corporate governance guidelines can be found on the INREV website.

4.4.1. Tool - Corporate governance self-assessment

Available on INREV website (www.INREV.org/guidelines)

4.5. Q&A

To what extent should the Board of an AIF monitor the activities and level of compliance of its appointed AIFM?

This scenario may typically occur where an AIF within the scope of the AIFMD appoints an external AIFM as its manager. In this case there are a number of important activities which the Board of the AIF delegates to the manager, but which it must monitor in order to ensure that the AIFM is performing such tasks reasonably and in compliance with legal and regulatory requirements.

Important tasks delegated to the AIFM must include portfolio management and risk management, and will often also include administration and marketing. The AIFM may also, for example, provide support to the Board of the AIF in the performance of its duties. In addition, the AIFM commonly identifies and manages key service provider relationships on behalf of the AIF, such as depositories and auditors, and under the AIFMD has a responsibility to manage the valuation of the AIF's assets and liabilities on behalf of the AIF to which it has been appointed. Clearly, the Board of the AIF has to be comfortable with the competencies and performance of the AIFM and will normally perform a degree of due diligence on the AIFM pursuant to this goal.

There are two key elements to this due diligence role:
- Initial due diligence
- Ongoing due diligence

Both initial and ongoing due diligence should be documented.

Initial due diligence

Before appointing an AIFM, the Board of the AIF should perform initial due diligence. The initial due diligence should, among other things, assess the ability of the proposed AIFM to perform the tasks to be delegated to it, and its ability to comply with the requirements of the AIFMD.

One of the key indicators for the Board of the AIF will be authorisation and supervision by the relevant supervisory authorities. Other typical factors which the Board of the AIF may consider may include:

- Scope of activities and experience of the AIFM;
- Knowledge, skills, experience and reputation of the Board, senior management and key staff, including the portfolio manager and risk manager;
- Organisation of the AIFM, including human and technical infrastructure, and the control arrangements of the risk management, compliance and internal audit functions;
- Delegation arrangements, and ability of the AIFM to perform adequate due diligence and ongoing monitoring;
- The identity and nature of the shareholders of the AIFM;
- Values statement or code of conduct, and how they are implemented in practice;
- Segregation of risk and portfolio management functions;
- Independence of the internal/external valuer.

From a practical perspective, the AIFM could provide the Board of the AIF with part or all of its application for authorisation to the supervisory authorities, and/or its handbook describing its organisational structure, policies and procedures, to assist the Board of the AIF in its assessment of the ability of the AIFM to comply with the requirements of the AIFMD.

Ongoing due diligence

The Board of the AIF should perform ongoing due diligence to assess whether the AIFM continues to have the ability to perform the tasks which have been delegated to it and to comply with AIFMD requirements. From an ongoing compliance perspective, the AIFM should provide the Board of the AIF with one or more reports covering:

- Risk management, including, among other items, KPIs on compliance with the risk limits and the risk profile of the AIF as disclosed to investors;
- Compliance with the regulatory requirements, including in particular KPIs on the compliance of the AIF;
- Internal audit reports, providing, among other items, an evaluation on whether risk management, control, and governance systems are functioning as intended.

Typically, each of these reports would be AIF-specific. In each case, the report should also cover remedial action to correct any deficiencies identified in the current or previous reports. The Board of the AIF should receive these reports at a frequency which is appropriate to the activities of the AIF, and at least annually.

In addition, when the AIF is appointing key service providers such as auditors and depositories, or providing representations to them, and when approving reports and accounts of the AIF, they are relying on the output of many of the key functions of the AIFM. Such reliance may be formally constituted in the form of reports and representations from the AIFM to the AIF.

5. Module 2 - Reporting

5.1. Introduction

In principle, managers should report basic data annually including the characteristics of a vehicle, commentary on vehicle performance and an analysis of the relevant KPIs. The annual report also informs investors about the vehicle's investment strategy, risk policies and exposures and how the manager has complied with its business objectives and policies.

The annual report is commonly composed of the annual review of the performance and activities of the vehicle for the year and the financial statements prepared under relevant GAAP. As well as an annual report, managers should provide interim reports to investors. The frequency and the level of detail of interim reporting should be defined in fund documentation. Interim reports commonly aim to update investors on the activities and performances of the vehicle during the interim period covered, and provide details of any significant changes that have or could have a material impact on the vehicle's organisation, governance and risk profile. As well as interim reports, there may be other more informal investor updates and 'flash' reports which are prepared on a more frequent basis (e.g., monthly), which are outside the scope of the guidelines.

Quantitative data and KPIs, as defined in the Standard Data Delivery Sheet ("SDDS"), are an integral part of investor reporting under these guidelines and such information should be included in the reports to investors. This data can be presented in a separate attachment to the annual or interim reports (using the SDDS template) or embedded into the relevant section of the report itself depending on the manager's preference.

For convenience, the reporting guidelines are grouped into the following sections:

- Content and frequency of reporting;
- General vehicle information, organisation and governance;
- Capital structure and vehicle-level returns;
- Manager's report;
- Property report;
- Financing and financial risk management.

Annual and interim reporting to investors may include audited annual financial statements or abridged interim financial statements prepared in accordance with the appropriate generally accepted accounting standards. The fund managers are free to present the INREV report disclosures as a single package with the audited financial statements or in two separate documents. Some managers may also opt to provide investors full financial statements on an interim basis. Such financial statements may contain some of the information required to be disclosed by these reporting guidelines and can be referred to as appropriate. Information in the respective financial statements should be consistent with information presented in annual or interim reports as a whole.

The reporting guidelines focus on the content of investor reports but do not prescribe the organisation and format of such reports.

The INREV SDDS is a standardised data tool that provides investors with the main financial management information they require in a format that allows them to easily upload the data into their own systems. Each reporting requirement has been referenced to relevant SDDS data and shows the relationship between the content of annual and interim reports.

The principles and guidelines for reporting are listed below. The frequency column indicates whether the guidelines are an annual reporting requirement or an interim reporting requirement only. Where appropriate, further explanation is provided to assist your understanding. In addition, a tools and examples section contains a debt and derivatives disclosures note, a reporting self-assessment tool, the SDDS template, and examples for a sustainability report and reporting on capital calls and distribution.

5.2. Principles

P.9. **Annual and interim reporting should be consistent, transparent and provide meaningful information to investors.**

P.10. **The manager's report should contain information relevant to gaining an understanding of the overall performance of the vehicle and factors that may affect performance in the future.**

5.3. Guidelines

5.3.1. Fund documentation for reporting framework

	Frequency	
	Annual	Interim
FD.19. **The basis, frequency and timing of delivery of the audited and non-audited financial statements, and management reporting for investors should be defined in the fund documentation.** **The manager should provide at least one interim report to its investors, in addition to the annual report.**		
FD.20. **For annual reports, define any terms or KPIs not already included in 11.1 Definitions.**	X	

5.3.2. Content and frequency of reporting

	Frequency	
	Annual	Interim
RG.1. **The quantitative information presented in the SDDS should be provided either using the SDDS template proposed by INREV or otherwise disclosed in annual and interim reporting to investors.**	X	X
RG.2. **The financial statements provided in the annual report to investors should be audited.**	X	
RG.3. **Elements of the overall package of annual and interim reporting to investors, however configured, should be internally consistent.** For instance, information presented in the manager, property and other reports should be consistent with information in the SDDS template, if separate, and the financial statements. Also, the basis of preparation of information contained in interim reporting to investors should be consistent with annual reporting to investors. Any differences or exceptions should be explained.	X	X
RG.4. **Full year-end audited financial statements should be provided to investors. These should contain:** - **Balance sheet;** - **Income statement;** - **Statement of changes in equity;** - **Statement of cash flows;** - **Notes to the financial statements.** *SDDS references:* 1.13 Accounting standards, 1.15 Fund auditor, 3.3 Net capital currently contributed, 3.4 Cash and cash equivalent, 3.5 Number of outstanding units, Section 11. details of fees paid to the manager and affiliates	X	
RG.5. **Abridged interim financial statements should be provided to investors. Managers and investors should agree on the format of the interim financial statements.**		X
RG.6. **For interim reports, use the same terminology and KPIs as used in the annual report. If new terms or KPIs are used, the manager should explicitly define them.** *SDDS references*: Same as RG.4		X

RG.7. **For annual reports, describe the overall status of the vehicle's INREV compliance.** **In doing so, disclose the level of compliance with INREV Guidelines by module. Include any relevant explanations, reconciliations and calculations as appropriate.** **Management (in the event that, for instance, INREV corporate governance framework is not being adopted) and/or non-executive officers/those in charge of governance should review this statement and the basis for making it.**	X	
RG.8. **For interim reports, disclose level of compliance with INREV interim reporting guidelines. Reference should be made to annual report for detailed description of the level of compliance with reporting requirements** **Management (in the event that, for instance, INREV corporate governance framework is not being adopted) and/or non-executive officers/those in charge of governance should review this statement and the basis for making it.**		X
RG.9. **Disclose that the interim report should be read in conjunction with year-end investor report.**		X

5.3.3. General vehicle information, organisation and governance

	Frequency	
	Annual	Interim
RG.10. **General information on the vehicle characteristics including, among others, name, domicile, legal form, vehicle style (by reference to INREV's vehicle style definitions), description of vehicle structure, vehicle currency, vehicle year-end.** *<u>SDDS references:</u>* 1.1 Fund name, 1.7 fund jurisdiction, 1.8 Legal fund structure, 1.9 Open or closed end, 1.12 reporting currency, 1.16 year-end	X	Describe material changes
RG.11. **Contact details of the vehicle.** *<u>SDDS references:</u>* 1.3 Contact person name and 1.4 telephone	X	Describe material changes

RG.12. **Describe the vehicle's governance framework and the organisation of management and administration. For example, identify the AIFM, administrators, trustees, depositories, general partners, risk managers, investment advisors, portfolio managers, asset and property managers, valuers and other key functions as appropriate.** _SDDS references:_ 1.2 Manager	X	Describe material changes
RG.13. **Identify and discuss vehicle governance and oversight frameworks such as the use of independent directors and investor or other special committees, and how they operate.**	X	Describe material changes
RG.14**. Describe the level of adoption of INREV corporate governance best practices.**	X	Describe material changes
RG.15. **Annual and interim reports should describe the level of compliance with the corporate governance framework defined in the fund documentation.**	X	Describe material changes
RG.16. **Present a short, high level summary of the vehicle strategy.** _SDDS references:_ 1.10 Fund style, 1.11 Fund style according to the INREV style classification definitions	X	Describe material changes
RG.17. **Describe key milestone dates in the life of the vehicle (including vehicle term, investment period, closing dates, etc).** _SDDS references:_ Section 2 Critical dates	X	Describe material changes
RG.18. **Describe the investment stage of the vehicle in the context of key milestone dates, by sector/geography.** _SDDS references:_ Same as RG.17	X	Describe material changes

5.3.4. Capital structure and vehicle-level returns

	Frequency	
	Annual	Interim
RG.19. **Annual and interim reports should disclose any changes to the capital structure of the vehicle.**	X	Describe material changes
RG.20. **In a tabular format, disclose the status of investor commitments and capital invested in the vehicle, and in particular:** - **undrawn commitment;** - **commitments drawn during the period (linkage should be made with underlying transactions);** - **returns of capital/redemptions in the period;** - **capital calls or subscriptions recorded subsequent to the period-end but before the release of the report;** - **details of redemption requests received but not processed as at the date of the report, and plans to meet these requests.** **In addition, the manager should disclose the expected drawn commitments, returns of capital/redemptions, capital calls and redemption requests for the following period. The manager may include assumptions used to determine these projections.** *SDDS references:* Section 12 Details of capital contributions, Section 14 equity capital commitments, section 15 capital contributions since inception and section 18 capital flows of the fund	X	
RG.21. **Summarise and comment on key investor returns and related metrics which are defined in section 7 of the SDDS (including comparison with targets, benchmarks and indices when relevant).** *SDDS references:* Section 7 Performance measures	X	X
RG.22. **Disclose and discuss details of share class NAVs (accounting NAVs, trading NAVs, INREV NAVs as applicable) and variances since prior period-end.**	X	X
RG.23. **Disclose and discuss distributions made during the period and subsequent to the period-end (link with underlying transactions such as**	X	X

property disposals where relevant). *SDDS references:* Section 13 Distributions and Section 16 Distributions since inceptions		
RG.24. **Summarise how the vehicle's fee structure impacts the vehicle's capital structure and vehicle-level returns, for instance describe any fee capitalisation arrangements.** *SDDS references:* Section 11 Fees paid to the manager and affiliates	X	Describe material changes

5.3.5. Manager's report

	Frequency	
	Annual	Interim
RG.25. **Summarise and discuss macro-economic factors which have, or may have, a material impact on the results of the vehicle.** This should include information such as economic growth factors and their impact on the demand for new rentals, the supply of property or availability of development opportunities. Include also details of material changes in the tax and regulatory environment and debt financing conditions, such as movements in interest rates and financing terms.	X	
RG.26. **Tabulate for clarity a summary of significant events affecting the vehicle during the period as well as significant events anticipated in the 12 months from the balance sheet date. Provide a brief commentary on significant activities of the vehicle including acquisitions, disposals, distributions to investors, and changes to the overall financing or capital structure during the period.**	X	X

RG.27. **Analyse the performance of the vehicle during the period by reference to relevant vehicle-level KPIs defined in sections 3.1, 3.2 and 5 of the SDDS, which include information such as the NAV, key financial ratios, valuation results, realised gains and losses and information related to operating results.** *SDDS references:* 3.1 GAV, 3.2 NAV and section 5 Result of the fund	X	X
RG.28. **Describe and comment on the structure of fee arrangements with managers and affiliates (including details of any relevant capitalisation or disbursement programs, year-end balances, amounts earned, accrued, paid or clawed back). Link accrued and un-accrued amounts with the realisation of performance criteria. When applicable, this description should include details of:** - **vehicle management fees;** - **asset management fees;** - **performance fees;** - **property management fees;** - **acquisition fees;** - **disposal fees;** - **development fees;** - **financing fees;** - **other related-party fee arrangements.** **Refer to the relevant sections of the financial statement disclosures for details as appropriate.** *SDDS references:* Section 11 Fees paid to the manager and affiliates	X	Describe material changes

RG.29. **Disclose the NAV of the vehicle and the basis of calculating it. Disclose to what extent the INREV NAV guidelines have been used to determine such NAV, and include details of adjustments made to reconcile the NAV with the financial statements. Include a description of the judgments and estimates used when determining the INREV or other NAV.** *SDDS references:* Section 4 Reconciliation of NAV to INREV NAV	X	Disclose the NAV and material changes to methodologies and assumptions
RG.30. **Discuss the current period performance in the context of the track record of the vehicle (for instance, over the last five years).**	X	
RG.31. **Describe all significant subsequent events affecting the vehicle since the period-end and comment on their impact on vehicle performance if relevant.**	X	X
RG.32. **Describe the likely developments in the vehicle's business in the foreseeable future and how this is aligned with achieving the overall vehicle objectives.**	X	
RG.33. **Describe the impact of potential or implemented regulatory changes that affect or may affect the vehicle's operations and performance.**	X	
RG.34. **Describe and comment on any significant one-off events having an impact on the results for the period. This disclosure should include, for instance, costs related to litigation, abort deal costs, one-off property related expenses and any other extraordinary or exceptional items.**	X	X

5.3.6. Property report

	Frequency	
	Annual	Interim
RG.35. **Describe and comment on current developments in the vehicle's investment property portfolio by reference to, for example, occupancy level, tenant profile by area occupied, average rent, the percentage of newly developed property that has been let or sold, etc.** *SDDS references:* 9.4 Numbers of assets, 9.10 lease expires < two years and 9.11 weighted average lease expiry	X	X

RG.36. **Describe the business rationale for any significant acquisitions or disposals during the period, and their impact on the vehicle's financial position and results.** *SDDS references:* Section 8 Investment activities, 5.10 unrealized gain/(loss) and 5.11 realized gain/(loss)	X	X
RG.37. **For interim reports, show a summary of the portfolio allocation by sector and geography.** *SDDS references:* Portfolio allocation sheet		X
RG.38. **For annual reports, show a summary of the portfolio allocation by sector and geography and comment on it in the context of the investment strategy of the vehicle (refer to the detailed portfolio allocation sheet in the SDDS).** *SDDS references:* Portfolio allocation sheet, number and amount of acquisitions and disposals (8.1, 8.2, 8.4 and 8.5)	X	
RG.39. **Summarise and comment on property valuation methods used for investment properties, properties under construction, land and ground leases. Include information on the methodologies used and the key market inputs and assumptions such as yields, discount or capitalisation rates. Describe any specific or special assumptions used in the property valuations such as assumed disposal scenarios, assumed capital expenditure and the treatment of transfer taxes.** *SDDS references:* 1.17 RICS rule compliant, 9.1 total fair value of investment and development portfolio, 9.2 Fair value of investment portfolio, 9.3 NOI yield and 9.5 total gross leasable area of fund assets	X	Describe material changes
RG.40. **Disclose the proportion of the property portfolio which has been subject to an independent external valuation along with references to the name and qualifications of the valuers, and the date of such valuations. Include details of any modifications or reservations disclosed in the valuers' reports.** *SDDS references:* 3.6 % of assets valued externally and 3.7 % of assets valued internally	X	

RG.41. **Provide an analysis of like-for-like movements in the market value and rental income of properties held in the current and prior periods.**	X	
RG.42. **Comment on the development of rental growth and expected rental values by sector/geography. The market data provided should be relevant to the specific activities of the vehicle.**	X	Describe material changes
RG.43. **Describe recent leasing renewal activity, including incentives given, rent free periods and tenant improvement programs and expected future changes by reference to market trends in new lease terms.**	X	Describe material changes
RG.44. **Summarise and comment on the development of vacancy rates and its impact on vehicle performance and future prospects.** *SDDS references:* 9.6 Total net leasable area of fund assets, 9.7 and 9.8 vacancy, 9.17 top 10 tenants	X	Describe material changes
RG.45. **Discuss the developments of property yields, including yields by sector and geography.** *SDDS references:* 9.3 NOI yield	X	Describe material changes
RG.46. **Discuss the developments of other key property information by sector and geography, when relevant.**	X	Describe material changes
RG.47. **Identify and comment on rental concentration risk (either by expected rental value or actual rental value).**	X	Describe material changes
RG.48. **Describe and comment on the level of property operating costs and, if significant, discuss the impact of specific factors such as service charge recoveries, bad debt write-offs and other property operating costs related to the vehicle's performance.**	X	X
RG.49. **If material, describe the impact of development activities on the vehicle by reference to, among other things, its investment strategy, development pipeline, stage of completion of developments, status of the sale of units or rental strategies.**	X	X

RG.50. **Discuss and quantify significant capital expenditure programs either planned or being undertaken during the period for existing properties, such as renovations, extensions and improvements.** *SDDS references:* 8.3 Amount of capital expenditures	X	X
RG.51. **Quantify the amount of property development being undertaken during the period. Include details of the amount of properties completed and either transferred to investment properties or sold during the period. Include details of development costs, related commitments, and the method of accounting for property under development.** *SDDS references:* 9.11 Fair value of development portfolio, 9.12 current development exposure as % of GAV, 9.13 projected percentage of current remaining undrawn commitments to be invested in future development projects and 9.14 cost of development portfolio	X	X
RG.52. **Describe and quantify the vehicle's position in joint ventures and associate investments. Include details of, among other things, the methods of accounting for such positions, how they impact the overall financial and risk profile of the vehicle, and their business prospects.**	X	X
RG.53. **Summarise and comment on returns from non-property investments such as positions in other vehicles, listed securities and other assets.**	X	X

5.3.7. Risk management

	Frequency	
	Annual	Interim
RG.54. **Describe the principal risks faced by the vehicle. Describe and analyse the vehicle's current exposure to such risks. Principal risks will cover, among others, areas such as:** - **market risks (yield shifts, rental income, voids, etc.);** - **credit and counterparty risks (exposure to tenant debtors, financial institutions etc.);** - **liquidity risks (including debt maturity, covenant breaches, redemption requests and the financing of future contractual**	X	Describe material changes

commitments); - **interest rate risks (exposure to floating vs. fixed rate debts);** - **foreign exchange risks (including details of hedging strategy and unhedged exposures);** - **operational risks (tax, regulation, key employees, reliance on service providers or key advisors, etc.).** **Exposure to shareholder loans should be analysed separately from external loans.**		
RG.55. **Describe the overall organisation of the risk management function and refer to key policies and procedures to monitor and mitigate exposures to key risks and uncertainties.**	X	Describe material changes
RG.56. **Describe the current level of compliance with risk management policies by reference to current exposures. In addition, comment on specific breaches and remedial plans.**	X	Describe material changes
RG.57. **In a tabular form, give details of the overall financing structure of the vehicle. Include information such as financing costs, security arrangements, recourse arrangements, maturity, and interest and loan amortisation terms. Refer to the financial statement disclosures as appropriate.** *SDDS references:* Section 6 Financing	X	Describe material changes
RG.58. **Comment on the overall financing structure of the vehicle by reference to its overall strategy and future prospects. Such commentary should provide information on the status of material new debt arrangements, early debt reimbursements, and debt restructuring programs relevant to the period or anticipated in the foreseeable future.** *SDDS references:* Section 6 Financing	X	Describe material changes
RG.59. **Describe and comment on the vehicle and SPV's current key financing ratios, for example, interest service coverage ratio, property levelloan to value, gearing ratio and the vehicle's general level compliance with such ratios.** *SDDS references:* Section 6 Financing	X	Describe material changes

RG.60. **Describe and comment on the use of derivative financial instruments and their impact on the vehicle's performance. Disclose their key terms and fair values and their treatment in the financial statements and NAV.** *SDDS references:* Section 6 Financing	X	Describe material changes
RG.61. **Describe and comment on the vehicle's overall financing income and charges by reference to the vehicle's financing structure, cash balances, changes in market conditions etc.** *SDDS references:* Section 6 Financing	X	Describe material changes

5.3.8. Other disclosure requirements

	Frequency	
	Annual	Interim
VAL.15. **In exceptional circumstances, deviations by managers from property valuations as determined by external property valuers must be clearly explained and disclosed.** If there is a disagreement between the manager and the property valuer on the market value parameters, these parameters must be clearly explained and disclosed. We expect these deviations and disagreements to occur only very rarely and if so, more in relation to opportunistic investments, where for example the manager and the external valuer have different views as to the likelihood of a particular event occurring (because, for example, the manager is in discussion with governmental bodies, potential buyers or tenants). Another example of deviation could be related to disagreement about value changes if there is a considerable time period between the actual date of external valuation and a later reporting date. Whatever the circumstances, appropriate internal procedures (including escalation measures) should be followed by the management in the event of valuation adjustments.	x	x

NAV.3. **INREV NAV disclosure requirements**
Managers should make the following disclosures related to the NAV computation:
 	
- **the reconciliation between GAAP NAV and INREV NAV should be presented in line with guideline NAV 2;**
- **managers should explain material estimates and computation methodologies to enable investors to understand the components of the reconciliation between GAAP NAV and INREV NAV;**
- **Explanatory notes to the reconciliation should describe key assumptions, methods used, and in particular:**
  - **the basis for reclassifying certain shareholder loans or hybrid capital instruments as a component of equity;**
  - **the basis for the determination of fair value of investment property, self-constructed or developed investment property, property that is leased to tenants under finance lease, investment property held for sale and real estate held as inventory;**
  - **the basis of the estimate of other investments in real estate assets;**
  - **the basis for the determination of the fair value of indirect investments not consolidated;**
  - **details of the methodology used to calculate the fair value of financial assets and liabilities;**
  - **the basis of the estimate of the fair value of construction contracts with third parties;**
  - **the basis of the estimate of the fair value of contractual fees;**
  - **details of the assumptions used to estimate the fair value of deferred tax and the tax effect of INREV NAV adjustments. Such disclosure gives an overview of the tax structure including, for instance, details of the property ownership structure, key assumptions and broad parameters used for estimating deferred taxes for each country, the maximum deferred tax amount estimated assuming only asset sales (i.e., without taking into account the intended method of disposal) and the approximate tax rates used;**
  - **reasons for making adjustments to the carrying value of subsidiaries having negative equity (non-recourse);**
  - **under IFRS, the fair value of investment properties does not take into account the expenses incurred by the seller when selling a property. As with IFRS, no adjustment is required to include a provision for such costs in the INREV Guidelines,**
	x	Describe material changes in methodologies and assumptions

unless they are held for sale. The manager should, however, estimate and disclose the amount of disposal costs likely to be incurred on the sale of properties, taking account of the intended method of exit, assuming an exit without duress and in the current market environment; - **set-up costs - description of impairment and reasons for booking if applicable;** - **set-up costs - description of the reasons for departure from the five year amortisation period if applicable;** - **acquisition expenses - description of impairment and reasons for booking if applicable;** - **acquisition expenses - description of the reasons for departure from the five year amortisation period if applicable.**		
FM.9. **The constituent elements of the metric calculation should be disclosed in the annual report.**	x	
FM.10 A disclosure table should be presented that provides an analysis of all the components of the fees charged by the manager, including any element of performance fee or carried interest or any other such arrangement, or by any other affiliate or related party of the manager. **See table in Fee and expense metrics module.** *SDDS references:* 5.13.1 TER-NAV excluding amounts paid out or accrued for performance, 5.13.2 TER-GAV excluding amounts paid out or accrued for performance, 5.13.3 TER-NAV including amounts paid out or accrued for performance, 5.13.4 REER and Section 11 Fees paid to the manager and affiliates	x	
FM.11. **The information in the following tables should be disclosed in the annual report.** **See table in Fee and expense metrics module.**	x	

5.4. Tools and examples

The below section contains tools and examples including a debt and derivatives disclosures note, a self-assessment tool, the SDDS template, and an example for sustainability reporting and capital calls and distribution.

5.4.1. Tool - Debt and derivative disclosures note

Available on INREV website (www.INREV.org/guidelines)

5.4.2. Tool - Standard Data Delivery Sheet

Available on INREV website (www.INREV.org/guidelines)

5.4.3. Example - Sustainability reporting recommendations

Available on INREV website (www.INREV.org/guidelines)

5.4.4. Example - Capital calls and distribution

Available on INREV website (www.INREV.org/guidelines)

5.5. Q&A

Question
How should a manager apply the interim and annual reporting requirements when four detailed quarterly or two semi-annual reports are provided to investors?

Answer
The INREV reporting guidelines focus on the content rather than the format of the reports to investors. Many managers prepare three or four quarterly interim reports or one semi-annual report along with a more complete annual report, including commentary on the last quarter/half year. Although these interim reports are expected to be in an abridged form, they can also contain all the disclosures set out in the annual reporting requirements at the manager's discretion. The reporting guidelines reflect the minimum requirements with respect to the content of the report to investors.

In some circumstances, managers provide to investors four quarterly reports or two semi-annual reports with annual financial statements provided separately. These reports contain all the disclosures set out in both the interim and annual reporting requirements and, therefore, comply with such requirements. In such case, the annual report accompanying the financial statements may only include a summary of the information provided in the detailed interim reports.

6. Module 3 - Property valuation

6.1. Introduction

Property valuations, to a large extent, drive vehicle performance and Net Asset Value (NAV). Management and performance fees are also often directly or indirectly linked to property valuations. From an investor's perspective it is therefore important to receive information from a vehicle which is based on a consistent and transparent approach to underlying property valuations. Other stakeholders including analysts, lending banks and market participants may also have an interest in valuations being prepared on this basis.

The aim of these guidelines is to define a common approach to property valuations that can be used for performance measurement, vehicle valuation and reporting.

The valuation guidelines should be seen as a minimum requirement from an investor's perspective. Because investor requirements for property valuations do not generally differ between the various types of vehicle, no differentiation has been made in the best practice for open end or closed end vehicles. This means, for example, that the frequency of external property valuations for reporting purposes does not necessarily depend on the nature or type of the vehicle.

These best practice requirements are not aimed at giving recommendations or guidance regarding property valuations for unit pricing purposes.

The principles and guidelines for property valuation are listed below. Where appropriate, further explanation is provided to assist your understanding.

6.2. Principles

P.11 **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.**

6.3. Guidelines

6.3.1. Fund documentation for valuation framework

FD.21. **The fund documentation should include details of valuation rules and procedures, pricing methodology including the methods used in valuing hard-to-value assets, and the frequency of valuation for all material assets and liabilities of the vehicle.**

6.3.2. The valuer and related matters

VAL.1. **The external valuer must be independent. When other services are provided by an external valuer which could possibly harm the independence of the external valuer, these must be disclosed.**

When the external valuer firm involved in valuing a property is or has recently been involved in the leasing, sale or purchase of the property, or the firm earns significant fees for other services besides the external appraisal, this should be properly disclosed, including a description of these services.

VAL.2. **The external valuer must have the appropriate professional qualifications and competence to perform the property valuation.**

The external valuer should have a local and/or international professional appraisal accreditation, and should be authorised or regulated to undertake valuations in the country concerned for the intended purposes. They should also have the requisite level of competence and possess relevant market knowledge and experience in order to perform the property valuation.

The external valuer firm must demonstrate that the level of competence and expertise is maintained throughout the organisation and its key employees.

It is also important that the valuer is regulated by the local and/or international professional appraisal accreditation, for example through Royal Institution of Chartered Surveyors (RICS) valuer registration.

Any deviations from the above principles should be fully disclosed and explained.

VAL.3. **A review of the continuing appointment or re-appointment of the external valuer firm should be undertaken on a regular basis, and at least once every three years.**

The assessment of the external valuer firm is an ongoing process. A formal assessment must take place at least once every three years, with the objective that the external valuer firm is the best-suited valuer to perform the valuation. The assessment may result in a rotation of external valuer firm. The assessment also includes an evaluation of whether the external valuer firm is properly insured against claims. In the event of rotation, there should not be any affiliation between the external valuer firms.

Reference is also made to the code of conduct included in the INREV Corporate Governance framework.

VAL.4. **The valuation fees of an external valuer should not be directly linked to the outcome of the valuation.**

In addition, the valuer should not hold any shares in the valued interest and its remuneration for a given valuation mandate should not represent a significant amount of its total annual turnover.

6.3.3. The valuation process

VAL.5. **External property valuations must be performed at least once per year for all properties.**

External property valuations are generally required for:

- (statutory) financial reporting;
- management reporting to shareholders and other stakeholders;
- performance measurement and (incentive) fee determination;
- regulatory authorities;
- securing finance / debt and on-going loan covenant compliance;
- corporate acquisitions and assessment of enterprise value.

Valuing property at least once per year does not mean all properties have to be valued at one time or necessarily at year-end, although this is best practice. More frequent external valuations or internal valuations may be undertaken to comply with the specific reporting requirements of the vehicle.

Although the professional valuation standards of the external valuers would already require physical inspection, this requirement has been included here in order to impose a partial responsibility in this respect on the manager as well.

In addition, for large portfolios, and based on its professional judgment, the external valuer may consider using a rotation principle on a three year rolling basis for the physical inspection of properties that have a homogeneous risk profile such as portfolios of residential units or storage space. If a rotation principle is applied by the external valuer, the manager should ensure that this approach is reasonable.

Newly acquired properties and properties undergoing significant (re)development activities should be included in the physical inspection sample of the year.

VAL.6. **The manager must ensure that comprehensive, appropriate and transparent information is provided to the external valuer to enable it to undertake a proper valuation and to enable it to make its own assessment of expected costs, including estimates of long-term maintenance and/or ground pollution costs.**

The manager must inform the external valuer in sufficient detail and not withhold any information that may be relevant to the property valuation. Examples of the kind of information provided by the manager to be used in determining property valuations and which may be verified by the external valuer with source documentation include lease/rent roll information, lease incentives granted, refurbishment costs, measurement data, property operating expenses, real estate taxes and any other information in connection with changes of market circumstances, tax and regulatory changes.

The manager should ensure that the legal ownership right (i.e., leasehold, freehold) and any restrictions or encumbrances are properly reflected in the value assessment.

The manager should provide the external valuer with all the latest developments regarding any known environmental issues.

6.3.4. The valuation

VAL.7. **The value of the property should be its market value or fair value.**

The IVS Committee and The European Group of Valuers' Associations (TEGOVA) define market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion". The IASB definition of fair value under IFRS 13 is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date".

In order to comply with professional international valuation standards, the market value estimate should, in principle, be free of any uncertainty clauses and special assumptions. Any special assumption or uncertainty clause should be adequately disclosed.

In order to comply with IFRS 13 the manager should ensure that the external valuer provides sufficient market evidence (if available in the market) and comparables to support all key assumptions used in the estimation of the market value.

VAL.8. **Valuers should comply with a recognised international professional valuation standard.**

Appointed valuers should comply with recognised international professional valuation standards such as International Valuation Standards (IVS), RICS or TEGOVA.

VAL.9. **Transfer taxes and purchasers' costs are deducted when determining the value of properties.**

When determining the market value of a property, the valuer should make the same allowance for transaction costs that a normal purchaser of the property would make in the market, regardless of the exit strategy.

VAL.10. **External valuation report must include information regarding the valuation method used for investment property, property held for sale, property under construction and ground leases, as well as applicable valuation inputs and market assumptions.**

The valuation methods can include, among others:

- market approach - based on market comparables;
- income approach - based on income capitalisation;
- other valuation models based on earnings multiples or discounted cash flow methodology;
- replacement cost less depreciation (cost approach) should only be used in specific and rare circumstances when other valuation methods cannot be applied.

The valuation of property under construction can be based upon:

- fair value at completion less costs to complete (residual approach);
- cost approach should only be used in specific and rare circumstances when other valuation methods cannot be applied.

During the initial phases of the construction of a property, the level of uncertainty surrounding the fair value of the property is high. In this context, the fair value as determined using the residual approach may be equal to the consideration paid for the property plus subsequent construction costs.

The information regarding applicable market assumptions could, for example, include sensitivity analysis of rent movements and yield changes.

Note that for the purpose of the INREV NAV, valuations of property under construction must be stated at fair value. Refer to 7.3.2 INREV NAV adjustments.

In the event of significant changes in market value resulting from a rotation of the external valuer, the manager must perform an assessment of the main underlying assumptions and provide full disclosure of the rationale for such changes.

Finally, the valuation methodology applied must lead to the market value regardless of the agreed valuation methodology as per management valuation regulations.

VAL.11. **The valuation performed by the external valuer should be subject to the manager's formalised internal valuation review and approval process.**

The manager should ensure that the overall valuation is reviewed and approved internally for accuracy prior to its inclusion in the vehicle's NAV and disclosure to stakeholders. The review and approval process should be impartial, objective, consistent and independent.

The review and approval should include the following controls, among others:

- the manager should ensure that the valuation timing and frequency is consistent with the valuation policies foreseen in the management regulations;
- the manager should ensure that the valuer's valuation assumptions as well as valuation method used are appropriate with regard to the nature of the property to be valued.

The manager's review can be adapted to the nature of the reporting, allowing for high level review for monthly or quarterly reporting as opposed to a full review for annual reporting.

VAL.12. **The valuation must result in a single number.**

Valuation ranges should not be used. However, if valuation ranges are provided by an external property valuer, it has to be clear which amount is being used in the reporting, for instance, the lowest, average or maximum value of this range.

VAL.13. **In exceptional circumstances, deviations by managers from property valuations as determined by external property valuers must be clearly explained and disclosed.**

If there is a disagreement between the manager and the property valuer on the market value parameters, these parameters must be clearly explained and disclosed. We expect these deviations and disagreements to occur only very rarely and if so, more in relation to opportunistic investments, where, for example, the manager and the external valuer have different views as to the likelihood of a particular event occurring (because, for example, the manager is in discussion with governmental bodies, potential buyers or tenants). Another example of deviation could be related to disagreement about value changes if there is a considerable time period between the actual date of external valuation and a later reporting date.

In such exceptional circumstances, the market value, as determined by the manager, must be reported in the balance sheet including full disclosure to justify the deviation from the market value arrived at by the external valuer.

Whatever the circumstances, appropriate internal procedures (including escalation measures) should be followed by the manager in the event of valuation adjustments.

6.3.5. Further guidance on valuation in case of liquidation or winding-up

In certain circumstances, the manager should consider and adjust on a case by case basis if there is an impact on the market value due to a liquidation situation or a winding-up (such that valuation should reflect a non-going concern basis).

While a market value estimate should, in principle, be free of any uncertainty clause and special assumption, the manager should in certain circumstances consider the potential effect of a liquidation value since a vehicle may not have the time for appropriate marketing of property in, among others, the following circumstances:

- distressed situations;
- liquidity issues;
- portfolio transactions;
- constraints on marketing (for instance due to debt maturities or maturity of the vehicle).

The manager shall consider on a case by case basis if there is an impact and whether or not it can be measured. Such impact should be taken into account when preparing the INREV NAV.

7. Module 4 - INREV NAV

7.1. Introduction

INREV's objective in establishing these guidelines is to provide managers with guidance on how to calculate and disclose an INREV NAV in financial reports of non-listed European real estate vehicles. This should lead to transparency and comparability of the performance of different types of vehicle and will enable investors to understand the information provided.

One of the purposes of reporting is to present investors with information relevant to the performance and valuation of their investment. The NAV derived from generally accepted accounting principles (GAAP), including IFRS, does not necessarily fulfil this objective. This guidance has therefore been prepared to provide an industry specific framework to enable managers to calculate a more meaningful adjusted NAV.

Both investors and managers seek an approach that is consistent across the real estate industry. The application of different accounting standards has also led to inconsistency of calculation of an adjusted NAV. Investors and managers also want to be able to compare the performance and valuation of non-listed European real estate vehicles against other vehicles.

INREV NAV should reflect a more accurate economic value of the investment (units) based on the fair value of the underlying assets and liabilities, as at the balance sheet date, as adjusted for the spreading of costs that will benefit different generations of investors, as compared to a NAV based on generally accepted accounting principles.

The main aim of the NAV is to compare vehicle performance across a peer group and for the valuation of the investment in the units for accounting purposes at the investor level. It is not intended to be a measure of the net realisable value of the vehicle units at the balance sheet date, which might be impacted by a wide range of other factors.

The principles and guidelines of how INREV NAV is determined are listed below. Where appropriate, further explanation is provided to assist your understanding. In addition, a tools and examples section includes a sample INREV NAV calculation containing many of the common adjustments that are required to derive an INREV NAV from financial statements prepared under IFRS. Finally a series of questions and answers has been added to provide further assistance with common queries.
The INREV NAV guidelines override the accounting principles by making adjustments to the results arrived at by following the chosen GAAP.

INREV NAV adjustments require material judgment by the manager (e.g., deferred tax, transfer taxes). Consequently, it is important to include sufficient disclosures to allow investors to understand positions taken by the manager.

7.2. Principles

P.12. **INREV NAV should reflect a more accurate economic value of the investment (units) based on the fair value of the underlying assets and liabilities, as at the balance sheet date, as adjusted for the spreading of costs that will benefit different generations of investors, than the NAV based on generally accepted accounting principles.**

7.3. Guidelines

7.3.1. Fund documentation for INREV NAV framework

FD.21. **The fund documentation should include details of valuation rules and procedures, pricing methodology including the methods used in valuing hard-to-value assets, and the frequency of valuation for all material assets and liabilities of the vehicle.**

FD.22. **The fund documentation should disclose the frequency of the NAV calculation.**

7.3.2. INREV NAV adjustments

The INREV NAV best practice requirements for the calculation of an adjusted NAV should be used for both open end and closed end vehicles. In this section direct links will be made to IFRS as a basis for calculating the required adjustments and, if needed, to other fair value concepts. If another basis of GAAP is used, further adjustments may be required to align with IFRS as the basis for determining an INREV NAV. References to further guidance by INREV on the interpretation of fair value and provision accounting will also be included.

NAV.1. **A vehicle NAV calculated in accordance with IFRS should be adjusted for the following items to calculate an INREV NAV**:

	TOTAL
NAV per the IFRS financial statements	X
Reclassification of certain IFRS liabilities as components of equity	
a) Effect of reclassifying shareholder loans and hybrid capital instruments (including convertible bonds) that represent shareholders long term interests in a vehicle	x
b) Effect of dividends recorded as a liability which have not been distributed	x
NAV after reclassification of equity-like interests and dividends not yet distributed	**x**
Fair value of assets and liabilities	
c) Revaluation to fair value of investment properties	x/(x)
d) Revaluation to fair value of self-constructed or developed investment property	x/(x)
e) Revaluation to fair value of investment property held for sale	x/(x)
f) Revaluation to fair value of property that is leased to tenants under a finance lease	x/(x)
g) Revaluation to fair value of real estate held as inventory	x/(x)
h) Revaluation to fair value of other investments in real assets	x/(x)
i) Revaluation to fair value of indirect investments not consolidated	x/(x)
j) Revaluation to fair value of financial assets and financial liabilities	x/(x)

k) Revaluation to fair value of construction contracts for third parties	x/(x)
l) Set-up costs	x/(x)
m) Acquisition expenses	x/(x)
n) Contractual fees	x/(x)
Effects of the expected manner of settlement of sales/vehicle unwinding	
o) Revaluation to fair value of savings of purchaser's costs such as transfer taxes	x/(x)
p) Revaluation to fair value of deferred taxes and tax effect of INREV NAV adjustments	x/(x)
q) Effect of subsidiaries having a negative equity (non-recourse)	x/(x)
Other adjustments	
r) Goodwill	(x)
s) Non-controlling interest effects of INREV adjustments	x/(x)
INREV NAV	**X**

Reclassification of certain IFRS liabilities as a component of the INREV NAV:

a) Effect of reclassifying shareholder loans and hybrid capital instruments (including convertible bonds) that represent shareholders' long term interest in a vehicle

Investors' capital can take various forms aside from equity – examples include shareholder loans and hybrid capital instruments such as convertible bonds. Some vehicles are structured via a combination of equity participations and shareholder loans.

Shareholder loans and hybrid capital instruments are generally seen as part of the investors' overall interest in the vehicle. They should be included as a component of equity in the INREV NAV and reclassified as such if they have been classified as liabilities in the financial statements of the vehicle under IFRS. The amount to be reclassified should reflect the corresponding carrying value of the liabilities in the IFRS accounts.

The existence of such instruments as part of the capital structure of a vehicle at its origination, or investor loans that are pari-passu to their equity stake and at off-market loan terms, are indicators, among others, that these items should be reclassified as part of the INREV NAV.

The reclassification should also take account of accrued interest, which is treated in a similar fashion to dividends.

b) Effect of dividends recorded as a liability which have not been distributed

Under certain circumstances dividends are recorded as a liability but have not yet been legally distributed. For the determination of INREV NAV, these accrued dividends should be reversed to the NAV.

Fair value of assets and liabilities

c) Revaluation to fair value of investment properties

If a real estate vehicle uses the option to account for investment properties under the cost model, this adjustment represents the impact on NAV of the revaluation of the investment property to fair value under the fair value option of IAS 40.

The effect of straight-lining of lease incentives, rent guarantees, insurance claims (for damages, lost rent, etc.) should be taken into account when valuing the property at fair value in accordance with IAS 40 and SIC 15 to ensure that any asset is not double-counted in the NAV.

d) Revaluation to fair value of self-constructed or developed investment property

If a real estate vehicle uses the option to account for self-constructed or developed investment property under the cost model, the adjustment represents the impact on NAV of the revaluation of the self-constructed or developed investment property to fair value under the fair value option of IAS 40.

e) Revaluation to fair value of investment property held for sale

Some investment properties may be classified as assets held for sale or as a group of assets held for sale. The carrying value of such investment properties depends on the chosen accounting treatment under IAS 40 (either fair value or cost).

The adjustment represents the impact on NAV of the revaluation of the investment property intended for sale, measured at fair value or cost, to the net realisable value (fair value less disposal costs).

f) Revaluation to fair value of property that is leased to tenants under a finance lease

Property that is leased to tenants under a finance lease is initially measured on a net investment basis and subsequently re-measured based on an amortisation pattern reflecting a constant rate of return.

The adjustment represents the impact on NAV of the revaluation of the finance lease receivable to fair value.

g) Revaluation to fair value of real estate held as inventory

Properties intended for sale and accounted for under IAS 2 (Inventory) are measured at the lower of cost or net realisable value in the financial statements. This adjustment represents the impact on the NAV of the revaluation of such properties to net realisable value (fair value less disposal costs). This adjustment should be included under the caption 'revaluation to fair value of real estate held as inventory'.

Where the likely disposal date is more than one year from the date of the NAV computation, disposal costs should not be deducted from fair value in calculating this adjustment.

h) Revaluation to fair value of other investments in real assets

Under IAS16 other investments in real assets are normally accounted for at cost.

The adjustment represents the impact on NAV of the revaluation of other investments in real assets to fair value in accordance with the fair value assumptions under IFRS 13.

i) Revaluation to fair value of indirect investments not consolidated

Indirect investments in real estate, such as investments in associations and joint ventures, have different accounting treatments and carrying values under IFRS. Such investments can be valued at cost, fair value or NAV.

The adjustment represents the impact on NAV of the revaluation of indirect investments to fair value if not yet accounted for at fair value.

j) Revaluation to fair value of financial assets and liabilities (including revaluation to fair value of debt obligations)

Financial assets and liabilities such as hedging instruments or debt obligations are generally measured at amortised cost, taking into account any impairment when applicable. The adjustment represents the impact on NAV of the revaluation of financial assets and financial liabilities to fair value as determined in accordance with IFRS, if not yet accounted for at fair value.

In addition, vehicles may incur costs for redemption of bank debts as a result of sales of properties. As with disposal costs, these costs are generally not accrued in IFRS. Where the disposal of a property is expected within one year, and therefore, the redemption of the related bank debt is also expected within one year, any bank debt early redemption costs should be accrued in the NAV.

k) Revaluation to fair value of construction contracts for third parties

Under IAS11, construction contracts for third parties are normally accounted for based on the stage of completion. The adjustment represents the impact on NAV of the revaluation of construction contracts for third parties to fair value in accordance with the fair value principles of IFRS 13.

Adjustments to reflect the spreading of one-off costs

As described in further detail below, set-up costs and acquisition expenses should be capitalised and amortised. The rationale for these adjustments is to spread these costs over a defined period of time to smooth the effect of the write-off of costs on the vehicle’s performance. Furthermore, it is a simple mechanism to spread costs between different investor groups entering or leaving the vehicle’s equity at different times.

In practice, there are many other ways in which vehicles address such issues for pricing, valuation, or other purposes including using bid-ask spreads for issue premium or redemption discounts on the NAV calculated on the basis of set percentages, the capitalisation and amortisation of such costs over different time periods or, indeed, not taking into account such costs at all in the calculation of the vehicle NAV. Since the INREV NAV is primarily intended to facilitate comparability between different vehicles, the INREV approach is a simple but fixed methodology. Please note that these capitalised costs are subject to an impairment test each time the NAV is calculated and therefore should always be recoverable over time. As the adjustments with respect to set-up costs are separately disclosed in the calculation of a vehicle’s INREV NAV, investors can choose how these are taken into account when valuing their holding.

l) Set-up costs

Under IFRS, vehicle set-up costs are charged immediately to income after the inception of a vehicle.

Such costs should be capitalised and amortised over the first five years of the term of the vehicle.

The rationale for capitalising and amortising set-up costs is to better reflect the duration of the economic benefits to the vehicle.

When capitalising and amortising set-up costs, a possible impairment test should be taken into account every time the adjusted NAV is calculated when market circumstances change and it is not expected that the capitalised set-up costs can be recovered through the sale of units of a vehicle. For instance, when a decision is made to liquidate the vehicle or stakeholders no longer expect to recover the economic benefit of such capitalised expenses, they should be written down.

m) Acquisition expenses

Under the fair value model, acquisition expenses of an investment property are effectively charged to income when fair value is calculated at the first subsequent measurement date after acquisition. This results in the fair value of a property on subsequent fair value measurement being lower than the total purchase price of the property, all other things being equal.

Property acquisition expenses should be capitalised and amortised over the first five years after acquisition of the property.

The rationale for capitalising and amortising acquisition expenses is to better reflect the duration of the economic benefits to the vehicle of these costs.

When capitalising and amortising acquisition costs, a possible impairment test should be taken into account every time the adjusted NAV is calculated when market circumstances change and it is not expected that the capitalised acquisition costs can be recovered through the sale of units of a vehicle. When a property is sold during the amortisation period or is classified as held for sale, the balance of capitalised acquisition expenses of that property should be expensed.

n) Contractual fees

A liability represents a present obligation as a result of past events. A fee payable at the end of the life of a vehicle or at any other time during the life of a vehicle may not meet the criteria for recognition as a provision or liability in accordance with IFRS at reporting date.

Examples of such fees include performance fees, disposal fees, or liquidation fees, representing a present obligation from contractual arrangements.

Most of these fees are normally accrued under IFRS accounting rules. The adjustment represents the impact on the NAV of the amount of the estimated contractual fees payable based on the current NAV of the vehicle in the rare circumstances in which these fees are not already recognised in financial statements produced under IFRS and it is probable that they will be incurred. In order to determine the amount of the adjustment, reference should be made to IFRS standards for the measurement (but not necessarily the recognition) of provisions or deferred liabilities.

A description of the calculation methodology and the terms of the underlying agreement should be disclosed (or reference could be made to the related party disclosures in which such agreements and terms are explained).

Effects of the expected manner of settlement of sales/vehicle unwinding

o) Revaluation to fair value of savings of purchaser's costs such as transfer taxes

Transfer taxes and purchaser's costs which would be incurred by the purchaser when acquiring a property are generally deducted when determining the fair value of investment properties under IAS 40.

The effect of an intended sale of shares in a property-owning vehicle, rather than the property itself, should be taken into account when determining the amount of the deduction of transfer taxes and purchaser's costs, to the extent this saving is expected to accrue to the seller when the property is sold.

The adjustment therefore represents the positive impact on the NAV of the possible reduction of the transfer taxes and purchaser's costs for the benefit of the seller based on the expected sale of shares in the property-owning vehicle.

Disclosure should be made on how the estimate of the amount the manager expects to benefit from intended disposal strategies has been made. Reference should be made to both the current structure and prevailing market conditions.

p) Revaluation to fair value of deferred taxes and tax effect of INREV NAV adjustments

Under IFRS, deferred tax assets and liabilities are measured at the nominal statutory tax rate. The manner in which the vehicle expects to realise deferred tax (for example, for investment properties through share sales rather than direct property sales) is generally not taken into consideration.

The adjustment represents the impact on the NAV of the difference between the amount determined in accordance with IFRS and the estimate of deferred tax which takes into account the expected manner of settlement (i.e., when tax structures and the intended method of disposals or settlement of assets and liabilities have been applied to reduce the actual tax liability).

Disclosures should include an overview of the tax structure including, for instance, details of the property ownership structure, key assumptions and broad parameters used for estimating deferred taxes for each country, the maximum deferred tax amount estimated assuming only asset sales (i.e., without taking into account the intended method of disposal) and the approximate tax rates used.

It is possible that the estimate of the amount of the adjustment required to bring the deferred tax liability related to property disposals to fair value could have a large impact on the INREV NAV. Since tax structures may differ from vehicle to vehicle, significant judgement is required and the mechanics of the calculation methodology for this adjustment may vary from vehicle to vehicle. Other components of the overall deferred tax adjustment require less judgement and are more mechanical in nature.

This adjustment should include a full assessment of the tax impact on NAV of INREV NAV adjustments.

As with IFRS, deferred tax balances are not discounted to take into account time value of money.

q) Effect of subsidiaries having a negative equity (non-recourse)

The NAV of a consolidated group under IFRS may include the net liability position of subsidiary undertakings. In practice, however, the group may have neither a legal nor a constructive obligation to fund the accumulated losses in situations where the financing of the subsidiaries is non-recourse to the vehicle.

In this scenario it is appropriate to make an adjustment when calculating the INREV NAV in order to recognise the group's interest in such subsidiaries at nil or an adjusted negative amount rather than at a full net liability position, to the extent there is no intention or obligation on the vehicle to make good those losses.

The adjustment represents the positive impact on the NAV of the partial or full reversal of the negative equity of the specific subsidiary. If the vehicle has granted shareholder loans to the subsidiary, these should be taken into account.

Other adjustments

r) Goodwill

At acquisition of an entity which is determined to be a business combination, goodwill may arise as a result of a purchase price allocation exercise. Often a major component of such goodwill in property vehicles reflects the difference between the full recognition of deferred tax, purchaser's costs or similar items in the IFRS accounts (which does not generally take account of the likely or intended method of subsequent exit), and the economic value attributed to such items in the actual purchase price. Except where such components of goodwill have already been written off in the NAV as determined under IFRS, they should be written off in the INREV NAV.

s) Non-controlling interest effects on the above adjustments

This adjustment represents the impact on the NAV of the recognition of non-controlling interests on all of the above adjustments.

NAV.2. **Computation of INREV NAV per share and effect of exercise of options, convertibles and other equity interests**

The INREV NAV represents the economic value of the total investment by the investors as a group. To derive the NAV per unit, managers should take into consideration any rights (such as carried interest, performance fees, manager remuneration schemes, terms or different classes of units, NAV waterfall calculation, option shares etc.) held by equity shareholders, or prospective equity stakeholders (in the case of options) of the vehicle in allocating the overall INREV NAV of the vehicle to individual classes of equity shareholders and in determining the individual value of units or shares.

In some circumstances, where the vehicle has raised and called capital, some investors may not have fully paid in their contributions. The INREV NAV per share should take into account the impact of called but unpaid capital.

NAV.3. **INREV NAV disclosure requirements**

Managers should make following disclosures related to the NAV computation:

- **the reconciliation between GAAP NAV and INREV NAV should be presented in line with guideline NAV.1**

Managers should explain material estimates and computation methodologies to enable investors to understand the components of the reconciliation between GAAP NAV and INREV NAV. Explanatory notes to the reconciliation should describe key assumptions, methods used, and in particular:

- **the basis for reclassifying certain shareholder loans or hybrid capital instruments as a component of equity;**
- **the basis for the determination of fair value of investment property, self-constructed or developed investment property, property that is leased to tenants under finance lease, investment property held for sale and real estate held as inventory;**
- **the basis of the estimate of other investments in real estate assets;**
- **the basis for the determination of the fair value of indirect investments not consolidated;**
- **details of the methodology used to calculate the fair value of financial assets and liabilities;**
- **the basis of the estimate of the fair value of construction contracts with third parties;**
- **the basis of the estimate of the fair value of contractual fees;**
- **details of the assumptions used to estimate the fair value of deferred tax and the tax effect of INREV NAV adjustments. Such disclosure gives an overview of the tax structure including, for instance, details of the property ownership structure, key assumptions and broad parameters used for estimating deferred taxes for each country, the maximum deferred tax amount estimated assuming only asset sales (i.e., without taking into account the intended method of disposal) and the approximate tax rates used;**

- **reasons for making adjustments to the carrying value of subsidiaries having negative equity (non-recourse);**
- **under IFRS, the fair value of investment properties does not take into account the expenses incurred by the seller when selling a property. As with IFRS, no adjustment is required to include a provision for such costs in the INREV Guidelines, unless they are held for sale. The manager should, however, estimate and disclose the amount of disposal costs likely to be incurred on the sale of properties, taking account of the intended method of exit, assuming an exit without duress and in the current market environment;**
- **set-up costs - Description of impairment and reasons for booking if applicable;**
- **set-up costs - Description of the reasons for departure from the five year amortisation period if applicable;**
- **acquisition expenses - Description of impairment and reasons for booking if applicable;**
- **acquisition expenses - Description of the reasons for departure from the five year amortisation period if applicable.**

7.4. Tools and examples

An example of an INREV calculation can be seen below.

7.4.1. Example - INREV NAV computation

- Vehicle details:

  - Multi-sector;
  - Single-country vehicle: Euroland;
  - Reporting under IFRS.

Note: the example does not include all required disclosures.

SIMPLIFIED VEHICLE IFRS BALANCE SHEET AS AT 31 DECEMBER 2013

ASSETS	Notes		LIABILITIES AND EQUITY	Notes	
Investment property	1	4,500	Vehicle capital (NAV)	7	1,000
Investment property under construction	2	350	Deferred tax liability	8	100
Inventory property	3	250	Fixed rated debt	9	3,000
Finance lease	4	100	Shareholder Loans	10	2,245
Deferred tax asset	5	25	Derivative financial instruments		100
Investment property held for sale	6	1,275	Other liabilities	11	55
Total		**6,500**	Total		**6,500**

Summary of accounting principles and notes

1) Investment property

The investment property is valued at fair value under the fair value option of IAS 40. The current fair value of the property based on an independent valuation report is 4,500. The vehicle is structured as far as possible as a tax neutral structure. All investment properties are held by special purpose vehicles (SPVs). Management’s strategy is to sell all properties through the sale of the shares in the relevant SPVs. It is estimated that this method will save the potential purchaser approximately 200 of transfer taxes.

2) Investment property under construction

Investment property under construction is composed of a self-constructed or developed investment property valued at cost until construction or development is complete. The current fair value of the property under construction based on an independent valuation report is 400.

3) Inventory

Property classified as inventory is measured at the lower of cost or net realisable value. Currently, such inventory is carried at cost in the balance sheet. The current fair value of the property held for sale based on an independent valuation report and including a provision for disposal costs is 300.

4) Finance lease

Property that is leased to tenants under a finance lease is initially measured at the initial net investment and subsequently re-measured based on an amortisation pattern reflecting a constant rate of return. Key assumptions include: Lease contract rent: 6%. Current rent: 7%. The current fair value of the finance lease based on current market interest rate conditions is 125.

5) Deferred tax asset

The deferred tax asset is measured in the financial statements at the nominal statutory tax rate. The nominal tax rate is 25%. This deferred tax asset relates to the revaluation of the derivative financial instruments. Management's opinion is that a tax rate of 12.5% should be used to reflect the fair value of the deferred tax position concerning the derivative financial instruments.

6) Investment property held for sale

The vehicle is in the process of selling a property located in Euroland. The property has been reclassified as investment property held for sale and is measured at fair value in accordance with IAS 40 which does not include disposal costs of 30.

7) Vehicle equity (NAV)

The vehicle capital structure does not include any options, convertibles and other equity interests other than shareholder loans (see below).

Details of the equity structure of the vehicle are as follows:

In addition to the performance fee arrangement included as a contractual liability, the manager of the vehicle, shareholder A, has a preferred right to an additional 10% of the profit of the year when an IRR hurdle rate is reached. The hurdle rate was reached for the first time in 2013. The profit for 2013 amounts to 100.

The vehicle shareholders are as follows:

	Units	%
Shareholder A	**1**	**0.1**
Shareholder B	**333**	**33.3**
Shareholder C	**333**	**33.3**
Shareholder D	**333**	**33.3**
Total units issued	**1,000**	**100**

8) Deferred tax liability

The deferred tax liability is measured in the financial statements at the nominal statutory tax rate. The nominal tax rate is 25%. This deferred tax liability relates to the revaluation of the investment property. The vehicle is structured as a tax neutral structure. All investment properties are held by special purpose vehicles (SPVs). Management's strategy is to sell all properties through the sale of the shares in the relevant SPVs. It is currently estimated that the sale will not lead to any payments to tax authorities but the deferred tax liability will be settled between the seller and the purchaser. Current market practice for this settlement is estimated to be 50% of the nominal rate.

9) Fixed rate debt

Debt is initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. Key assumptions include: Debt interest 5%. Current interest 5.25%. The current fair value of the fixed rate debt is estimated to be 2,850.

10) Shareholder loans

The financial statements under IFRS show shareholder loans of 2,275. The shareholder loans are judged to form part of the long term interest of the vehicle's shareholders.

11) Other liabilities

Under the vehicle's constitution, a component of income in a period is contractually required to be paid out to shareholders. Consequently, other liabilities include undistributed dividends of 30.

12) Set-up costs

Set-up costs are expensed immediately at the inception of the vehicle. The total amount of set-up costs is 100. The vehicle was incorporated in 2010. It is assumed that set-up costs are not deductible.

13) Acquisition expenses

Under the fair value model, acquisition expenses of an investment property are charged to income as a component of fair value changes at the first subsequent measurement date after acquisition.

BUILDING		AMOUNT	YEAR OF ACQUISITION
1	Building A	50	2010
2	Building B	70	2011
3	Building C	30	2012
4	Building D	60	2013

We have assumed that the acquisition costs are incurred on 1 January each year.

14) Contractual fees

Under the other liabilities an obligation is recorded in relation to the fair value of potential performance fees for an amount of 10.

15) Subsidiaries with negative net equity

The vehicle holds a 100% interest in a subsidiary which is in a position of negative equity. The vehicle currently has no intention or constructive obligation to fund the losses. The current accumulated negative equity (including shareholder loans) included in the consolidated accounts relating to this subsidiary is 100.

INREV NAV Calculation

	TOTAL	Notes
NAV as per the IFRS financial statements	1,000	
Reclassification of certain IFRS liabilities as components of equity		
Effect of reclassifying shareholder loans and hybrid capital instruments	2,245	
Effect of dividends recorded as a liability which have	30	

not been distributed		
NAV after reclassification of equity-like interests and dividends yet distributed	3,275	
Fair value assets and liabilities		
Revaluation to fair value of investment properties	---	
Revaluation to fair value of self-constructed or developed investment property	50	1
Revaluation to fair value of investment property held for sale	(30)	
Revaluation to fair value of property that is leased to tenants under a finance lease	25	2
Revaluation to fair value of real estate asset held as inventory	50	3
Revaluation to fair value of other investments in real assets	---	
Revaluation to fair value of indirect investments not consolidated	---	
Revaluation to fair value of financial assets and financial liabilities	150	4
Revaluation to fair value of construction contracts for third parties	---	
Set-up costs	20	5
Acquisition expenses	104	6
Contractual fees	---	
Effects of the expected manner of settlement of sales/ vehicle unwinding		
Revaluation to fair value of savings of purchaser's costs such as transfer taxes	200	
Revaluation to fair value of deferred taxes and tax effect of INREV NAV adjustments	(16.1)	7
Effect of subsidiaries having a negative equity (non-recourse)	100	8
Other		
Goodwill	---	
Non-controlling interest effects of INREV adjustments	---	
INREV NAV	3,927.9	

Notes to the INREV NAV

1. Revaluation to fair value of self-constructed or developed investment property

Value per IFRS financial statements	350
Value per INREV Guidelines	400
INREV NAV adjustment	**50**

The adjustment represents the impact on the NAV of the measurement of the self-constructed or developed investment properties to fair value.

2. Revaluation to fair value of property that is leased to tenants under a finance lease

Value per IFRS financial statements	100
Value per INREV Guidelines	125
INREV NAV adjustment	**25**

In the financial statements, properties that are leased to tenants under a finance lease are initially measured at the net investment and subsequently based on a pattern reflecting a constant rate of return. The adjustment represents the impact on the NAV of the measurement of such finance leases to fair value.

3. Revaluation to fair value of inventory property

Value per IFRS financial statements	250
Value per INREV Guidelines	300
INREV NAV adjustment	**50**

The adjustment represents the impact on the NAV of the measurement of the properties intended for sale recorded using the lower of cost or net realisable value model to fair value less disposal costs.

4. Revaluation to fair value of financial assets and financial liabilities

Value per IFRS financial statements	3,000
Value per INREV Guidelines	2,850
INREV NAV adjustment	**150**

In the financial statements, debt is initially measured at fair value net of transaction costs and, generally, subsequently measured at amortised cost using the effective interest method. The adjustment represents the impact on NAV of the measurement of all debt and related derivatives to their fair values.

5. Set-up costs

In 2010, an amount of 100 of vehicle set-up costs was expensed immediately to the income statement prepared under IFRS. In accordance with INREV Guidelines, these vehicle set-up costs have been capitalised and amortised over the first five years of the life of the vehicle. During the year 2013, the vehicle amortised an amount of 20, resulting in a cumulative amortisation of 80. The manager assesses that no impairment should be recorded as it is not to be expected that the capitalised set-up costs can be recovered through the sale of the units of the vehicle.

6. Acquisition expenses

From 2010 to 2013, acquisition expenses amounting to 210 were expensed immediately to the income statement prepared under IFRS. In accordance with INREV Guidelines, these acquisition expenses have been capitalised and amortised over the first five years after the acquisition of the buildings. During the year 2013, the vehicle amortised an amount of 42, resulting in a cumulative amortisation of 106. The unamortised amount at 2013 is 104.

The manager assesses that no impairment should be recorded as it is not to be expected that the acquisition expenses can be recovered through the sale of the units of the vehicle.

7. Deferred tax

The deferred tax assets and liabilities are measured in the financial statements at the nominal statutory tax rate. The manner in which the vehicle expects to settle deferred tax is not taken into consideration. The adjustment represents the impact on the NAV of the deferred tax for the assets and liabilities of the vehicle (in this case properties and derivative financial instruments) based on the expected manner of settlement (i.e., when tax structures have been applied to reduce tax on capital gains or allowances, this should be taken into consideration).

Based on the example, the following adjustment would be made:

Deferred Tax	**Exit Assumption**	**Temporary Taxable Difference**	**Effective Tax Rate**	**NAV Adjustment**
Revaluation to fair value of self-constructed or developed investment property	Share sale	50	12.5%	(6.3)

Revaluation to fair value of inventory	Asset sale	50	25%	(12.5)
Revaluation to fair value of property that is leased to tenants under a finance lease	Share sale	25	12.5%	(3.1)
Revaluation to fair value of financial assets and financial liabilities	N/A	150	12.5%	(18.8)
Acquisition expenses	Share sale	104	12.5%	(13)
Existing deferred tax measured at fair value				37.5
Total Effect on NAV				**(16.1)**

Key assumptions that support the computation are as follows:

- Management's opinion is that a tax rate of 12.5% should be used to reflect the fair value of the deferred tax position concerning debts and related derivative financial instruments. For the adjusted NAV calculation all potential other deferred taxes are valued at 50% of the nominal rate.
- Property assets accounted for as inventory are expected to be sold in asset deals and therefore the full statutory rate has been applied to the temporary taxable difference;
- Under IFRS reporting the deferred tax liability for investment property is based on a nominal rate of 25%. All investment properties are held by SPVs. Management's strategy is to sell properties only through the sale of the shares in the SPVs. The sale will not lead to any tax payments. The deferred tax liability will be settled between the seller and the purchaser. Market practice for this settlement is 50% of nominal rate;
- The difference between the fair value of properties leased to tenants under a finance lease and the corresponding tax book value is expected to reverse as an effective rate of 12.5%, taking into account the vehicle tax structure and likely exit scenario;
- The existing deferred tax measured at fair value is calculated by multiplying the difference between the deferred tax asset and deferred tax liability by 50%.

8. Effect of subsidiaries having a negative equity (non-recourse)

The vehicle holds a 100% interest in a subsidiary which is in a position of negative equity. The vehicle currently holds no intention or constructive obligation to fund the losses. The current accumulated negative equity (including shareholder loans) position is 100. An adjustment of 100 is therefore made to the INREV NAV.

9. NAV per share

		Computation	NAV/share
Shareholder A	**10% of profit + 0.1% of the remaining NAV**	**(10%*100 + 0.1% x (3,927.9-10))/1**	**13.9179**
Shareholder B	**33% of NAV minus performance allocation to shareholder A**	**(33.3% x (3,927.9-10))/333**	**3.9179**
Shareholder C	**33% of NAV minus performance allocation to shareholder A**	**(33.3% x (3,927.9-10))/333**	**3.9179**
Shareholder D	**33% of NAV minus performance allocation to shareholder A**	**(33.3% x (3,927.9-10))/333**	**3.9179**

The NAV per share is calculated based on the INREV NAV adjusted for any preferences due to shareholders based on the current equity structure. Initially, profit allocation to preferred shareholders is calculated, and then the remaining INREV NAV is allocated according to the current equity structure.

7.5. Q&A

1. Capitalisation and amortisation of set-up costs and acquisition expenses

What is the rationale behind the adjustments in determining the INREV NAV whereby set-up costs and acquisition expenses are capitalised and amortised over five years? Do these adjustments not simply inflate the NAV of the entity given that the property portfolio is already included at its fair value in the NAV calculation?

The initial main aim of the INREV NAV is to help compare vehicle performance across a peer group and for the valuation of the investment in the units for accounting purposes at the investor level.

During the initial INREV NAV project in 2007 it was decided after several workshops, interviews and the white paper process to have one INREV NAV for both open end and closed end vehicles, with the intention of increasing comparability. It was noted that for some adjustments the suggested treatment would not necessarily lead to the correct approach for certain types of vehicle. However, when measuring performance of different types of vehicle (such as in the INREV INDEX), comparability would be increased if all vehicles treated adjustments in the same way.

The initial rationale for capitalising and amortising set-up/acquisition expenses is to better reflect the duration of economic benefit to the vehicle of these costs. This is for both performance measurement and valuation of investments.

This was prompted by the fact that, under IFRS, set-up costs are charged immediately to income after the start/inception of a vehicle and under the fair value model, acquisition expenses of investment property are effectively charged to income when fair value is calculated at the first subsequent measurement date after acquisition – resulting in the so-called J-curve.

Performance measurement

Based on the outcome of the analyses in 2007 it was INREV's intention to use an adjusted NAV for performance measurement (including in the INREV Index) to mitigate the negative effects of the J-curve. If for performance measurement different types of vehicle, with different vintages, are compared or benchmarked in one index the treatment of set-up costs and acquisition expenses as a one-off expense would lead to an underperformance of that specific vehicle, in comparison with the benchmark, in the first years of the life of the vehicle (acquisition phase). For the years up to the disposal phase it would more easily outperform the benchmark, as the effects of the J-curve arising on new vehicles would lower the overall performance benchmark. During the disposal phase, a vehicle would generally underperform the benchmark as the one-off effects of the disposal costs would have a negative effect on the individual performance of the vehicle.

Valuation of units in investment vehicles

With the amortisation of set-up costs and property acquisition expenses the effect of the so-called "J-curve" can be eliminated in the valuation of units in investment vehicles. Some investors were using an adjusted NAV for valuation, others, at that time, were recording the investments at cost for the first three years and only starting to use IFRS NAV when the appreciation of real estate values had driven IFRS NAV above the initial cost price.

Furthermore, it was noted that investors were of the opinion that such expenses have a value, and were seen as part of the initial investment. These costs were directly incurred in order to receive direct returns from the rental income and hopefully indirect returns by way of value appreciation upon liquidation. This return would flow back to the investor during the whole holding period of an investment.

2. Calculation of adjustment in respect of deferred tax liability

How should this adjustment be calculated? Is it appropriate to calculate this as a fixed percentage (e.g., 50%) of the deferred tax liability calculated for the vehicle under IFRS/local GAAP on a portfolio basis or any other aggregate basis?

The rationale behind this adjustment is that under IFRS (and many other GAAPs) deferred tax liabilities are measured at the nominal statutory tax rate. The manner in which a vehicle expects to settle deferred tax is generally not taken into consideration. Accordingly, the provision calculated on this basis may not be representative of the fair value of deferred tax liabilities (i.e., the actual amounts expected to be crystallised upon disposal of the property assets).

In calculating the adjustment of the fair value of the liability, based on the expected manner of settlement, the adjustment should be assessed on an asset-by-asset basis.

For each asset, therefore, consideration should be given as to the most likely form of disposal (e.g., asset deal or share deal) based on the intended disposal method and tax structuring of the asset as well as market conditions relevant to that property as at the date of calculation. Assumption of changes in disposal method based on as-yet unrealised future changes in market conditions are considered too subjective for the purposes of calculating the INREV NAV adjustments. If applicable, the history of the entity with regard to disposals should also be considered. The fair value of the deferred tax liability is then calculated in accordance with the assessed manner of settlement as well as the applicable rates at which the transaction would be taxed. IFRS allows only the rates that have been enacted or substantially enacted at the balance sheet date to be used whereas rates which have been enacted or substantially enacted after the balance sheet date can be used for the purposes of calculating the INREV NAV adjustment.

The calculation should also take into account any discounts to the sale price of a property sold via a share deal that are likely to be granted. For example, it may be that the sale of the shares of the property-owning entity is exempt from tax (or attracts minimal tax) but a deduction in respect of the latent capital gain within the property owning entity is made in arriving at the sale price. This amount in addition to any tax likely to crystallise on the disposal transaction should be taken into account when calculating the INREV NAV adjustment.

On this basis, therefore, a fixed percentage approach as outlined above will not be appropriate unless it represents a reasonable estimate of the adjustment required in respect of the deferred tax liability for each of the individual properties in the portfolio.

It is imperative to ensure that the calculation of the adjustment, either in part or in full, is not already included within the deferred tax liability calculated for the vehicle under IFRS/local GAAP, so as to avoid double-counting of the adjustment. Care should also be taken to ensure that there is no double-counting between this adjustment and the INREV adjustment on transfer taxes with regard to the valuation of property. For avoidance of doubt, transfer taxes should not be included within the scope of the deferred taxation adjustment calculation.

Given the subjective and complex nature of this calculation, therefore, it is recommended that managers document a formal internal policy with regard to the calculation methodology and review the policy on an ongoing basis (for example, with respect to changes in tax law and market conditions) in order to ensure that it remains appropriate. Disclosure should be given on the overall tax structure, including the overall ownership structure, key assumptions and broad parameters for each country, what the maximum taxation calculation would be on a traditional basis (i.e., without tax structures) and the approximate tax rate as a percentage.

3. Calculation of adjustment in respect of transfer taxes

How should this adjustment be calculated? Is it appropriate to compute this as a fixed percentage (e.g., 50%) of the transfer taxes for the vehicle under IFRS/local GAAP?

The calculation of the adjustment to the deduction of transfer tax (and other purchaser's costs) inherent in the property valuation based on the expected manner of settlement, should be assessed on an asset-by-asset basis.

For each asset, therefore, consideration should be given as to the most likely form of disposal (e.g., asset deal or share deal) based on the intended disposal method and tax structuring of the asset as well as market conditions relevant to that property. If applicable, the history of the entity with regard to disposals and the agreed allocation of the tax burden between the seller and the purchaser should also be considered. This is the same rationale as for the calculation of the deferred tax liability adjustment. Where the assessed disposal method would result in a reduction in the transfer taxes (and purchaser's costs) in the fair valuation of the property, this adjustment is made in arriving at the INREV NAV. However, the adjustment should only be included to the extent to which it is not already included in the property valuation, in order to avoid double-counting.

For this reason it is important that transfer taxes and other purchaser's costs are considered as separate components when computing the adjustment. The same reduction may not be appropriate in both cases. For example, a share deal disposal may result in lower transfer taxes but may, in fact, increase the other purchaser's costs due to the need for additional legal expenditure and diligence required to complete any such deal.

On this basis, therefore, a fixed percentage approach as outlined above will not be appropriate unless it represents a reasonable estimate of the adjustment required for both transfer taxes and other purchaser's costs for each of the individual properties in the portfolio.

Given the subjective and complex nature of this calculation, therefore, it is recommended that managers document a formal internal policy with regard to the calculation methodology and review the policy on an ongoing basis (for example, with respect to changes in tax law and market conditions) in order to ensure that it remains appropriate. Adequate disclosures should also be provided so that users of the financial information can understand the calculation methodology with regard to the adjustment, as well as the key assumptions that the manager has made in the calculation and how the manager expects to utilise this additional value based on the current structure and market circumstances.

4. Investment in an associate/joint venture

How should the INREV Guidelines be applied when valuing an entity's investment in an associate/joint venture which is accounted for in the IFRS/local GAAP accounts of the entity (using either the equity method or proportionate consolidation)?

For the purposes of the INREV NAV, management's best estimate of the fair value of the entity's holding in the associate/joint venture should be used. Depending on the type of investment there will be a hierarchy of valuation methods in order to assess this:

1. If the investment is quoted on an active market then the fair value should be calculated using the quoted price as at the calculation date;
2. For investments in vehicles where there is a right of redemption at a contractually set NAV, then this should be used to value the holding irrespective of whether this NAV is consistent with INREV Guidelines;
3. If the investment is in a closed end vehicle or a similar type of entity and there is no fixed redemption price or listed price then the fair value of the holding should be estimated so as to be consistent with INREV Guidelines;
4. If there is not sufficient information available to compute the INREV NAV of the investment then another valuation technique should be used including, for example, an estimate based on recent comparable transactions if these are available.

5. Portfolio premium/discount.

Should the INREV NAV calculation include a portfolio premium/discount where, for example, the independent appraiser's valuation report includes a statement that the portfolio as a whole would command a premium/discount in addition/decrease to/of the individually appraised values of each property?

The portfolio premium/discount should not be included in the INREV adjusted NAV and, according to the INREV Guidelines for property valuation, should not be included within the fair value of property. Nevertheless it is recommended that any such premium or discount be disclosed separately.

6. Held-to-maturity derivatives

Is it not the case that, for open end vehicles, there is no need for fair valuations for hedging derivatives on the basis that upon maturity the value of these should be nil?

For both closed end and open end vehicles, the diluted INREV NAV should reflect all hedging derivatives at their fair value.

8. Module 5 – Fee and expense metrics

8.1. Introduction

The objective of this module is to provide clarity on the calculation and disclosure of selected fee and expense metrics, including both Total Expense Ratios (TER) and the Real Estate Expense Ratio (REER), as part of the reporting cycle and forming part of the overall performance measures made available to investors. These fee and expense metrics, when analysed in the context of vehicle style, investment strategy and inherent risks, will help the non-listed real estate vehicles industry – both institutional investors and managers – to compare fee and cost structures between non-listed real estate vehicles and other investment structures.

INREV seeks to address a lack of consistency in presentation and categorisation of fees and expenses when vehicles from different domiciles are compared. While there might not be perfect consistency in expense breakdowns, the aim is that fee and expense metrics should provide as much relevant information as possible, but more importantly remain as comparable as possible. The fee and expense metrics have been designed to be straightforward, easy to understand, and to follow the vehicle's normal reporting cycle.

Wherever possible INREV has taken guidance already issued by regulators and used this as a basis for the fee and expense metrics guidelines. Consequently INREV has taken the guidance provided by the Undertakings for Collective Investment in Transferable Securities Directives (UCITS) for a TER representing the costs of managing the vehicle and used this as a basis for the INREV TER.

In order to provide increased transparency, INREV has also constructed a REER to provide information on the costs associated with running the underlying real estate or property portfolio.

The fee and expense metrics should be constructed on the basis of the nature of the expense. There is a significant variation in how and for which services managers charge their fees. There should be clear disclosure of all the fees charged by the manager and the activities to which they relate.

At launch, it is of particular interest to investors to be able to understand the forward-looking or projected operating expense structure compared to the amount of invested capital, as well as understanding the impact of the cost structure on the overall investment return. Accordingly, INREV supports the concept of forward-looking expenses being included in the vehicle launch documentation.

The principles and guidelines for fee and expense metrics are listed below. Where appropriate, further explanation is provided to assist your understanding. In addition, a tools and examples section includes a sample calculation of INREV fee and expense metrics.

Further guidance on financing and tax metrics will be issued in the future.

8.2. Principles

P.13. **Fees and other costs should be consistently categorised and presented to enable investors and managers to compare fee and cost structures between non-listed real estate vehicles.**

To enable fairer comparisons of fees and expenses between vehicles, the vehicle should present a TER, which expresses consistently categorised annual operating costs borne by a vehicle over one year, as a proportion of INREV weighted average net and gross vehicle assets.

A REER should also be calculated and presented to capture property-specific costs as a proportion of INREV weighted average gross vehicle assets.

There should be clear disclosure of all the fees charged by the manager and the activity to which they relate. Where a single fee is charged to cover a variety of activities, the constituent elements will need to be identified, allocated to the appropriate cost category and disclosed annually.

Forward-looking fees and expenses should be presented for the first, second and third year of operation in the launch documentation.

8.3. Guidelines

8.3.1. Vehicle documentation for fee and expense metrics framework

FD.18. **Vehicle documentation should include the fee and expense metrics expected to be disclosed by the manager and the frequency of disclosure to investors.**

8.3.2. Fee and expense metrics requirements

Forward-looking ratios and metrics are valuable components of the fund documentation. However, they are ‘theoretical’, in as much as they will be based on estimated costs and anticipated asset levels and on assumptions such as growth rate, life of the vehicle and tax structuring. Requirements related to the forward-looking fee and expense metrics at the vehicle launch stage are described below. Once the vehicle has commenced operations there is no requirement for forward-looking metrics as they are based on assumptions whereas the historic metrics will be based on historic data.

FM.1. **The amounts should reconcile to the financial statements.**

8.3.2.1. Historic ratios

8.3.2.1.1. Historic total expense ratio

FM.2. **An historic TER, including and excluding performance fees, based on both weighted average INREV GAV and weighted average INREV NAV of the vehicle over one year, should be provided in the annual report.**

TER is normally expressed as a percentage of weighted average INREV NAV. However the degree of leverage within a vehicle causes distortion in comparability when based upon INREV NAV. Therefore it is also expressed as a percentage of INREV GAV.

The components of the numerator are already defined by many regulators and include the vehicle expenses, as defined below. To the extent that these vehicle expenses are recharged to the underlying investments, they should also be included in the calculation.

Property expenses charged by the manager should not be considered when determining the TER but will form part of the REER. If the manager charges a single fee for both property and vehicle management activities, then it should be split into its constituent elements.

The TER should be disclosed both including and excluding performance fees due to the differing structural methods of distribution, and each calculation should be separately disclosed.

The formulae for TER are:

TER before performance fees:

$$\frac{\text{(Management fees + Vehicle costs)}}{\text{Weighted average INREV NAV}} \qquad \frac{\text{(Management fees + Vehicle costs)}}{\text{Weighted average INREV GAV}}$$

TER after performance fees:

$$\frac{\text{(Management fees + Vehicle costs+ Performance fees)}}{\text{Weighted average INREV NAV}} \qquad \frac{\text{(Management fees + Vehicle costs+ Performance fees)}}{\text{Weighted average INREV GAV}}$$

The TER is an historic or 'actual' figure, based on data published in the annual report. Consequently, newly launched vehicles cannot have an historic TER.

8.3.2.1.2. Historic real estate expense ratio

FM.3. **An historic REER based on the weighted average INREV GAV of the vehicle over one year should be provided each year in the annual report.**

While the TER expresses operating costs borne by the vehicle, REER captures only the expenses that relate to the management of the real estate assets. The REER includes all property-specific costs.

The numerator should include all of the costs associated with managing the asset and the denominator should be the weighted average INREV GAV. Disposal costs should not be included in property expenses as these form part of the gain/loss on property/investment disposals which are exempt.

The formula for REER is:

$$\text{REER} = \frac{\text{Property expenses}}{\text{Weighted average INREV GAV}}$$

8.3.2.2. Forward-looking ratios

8.3.2.2.1. Forward-looking total expense ratio

FM.4. **A forward-looking TER, based on both weighted average INREV GAV and weighted average INREV NAV of the vehicle for the first, second and third years of the vehicle's life, should be provided in the documentation. These should be calculated following the same methodology as for an historic TER, although they will be based on estimates.**

The computed forward-looking TER is calculated after performance fees, such that all vehicle expenses as set out below are taken into account.

FM.5. **The forward-looking TER should be accompanied by disclosure of the estimates made to calculate this metric.**

8.3.2.2.2. Forward-looking real estate expense ratio

FM.6. **A forward-looking REER, based on the weighted average INREV GAV of the vehicle over one year, should be provided for the first, second and third years of the vehicle's life in the documentation. These should be calculated following the same methodology as for an historic REER.**

FM.7. **The forward-looking REER should be accompanied by disclosure of the estimates made to calculate this metric.**

8.3.3. Fee and expense metrics calculation

8.3.3.1. Expense ratio cost classification

FM.8. **Fees and expenses should be classified consistently for the purpose of calculating the fee and expense metrics.**

Fees and expenses should be presented on a gross basis and classified as follows:

Vehicle expenses, which are composed of:

- Management fees: these fees are fees paid to the manager for its management services and include third party vehicle management services which managers recharge to the vehicle;

- Vehicle costs: these costs are incurred predominantly at vehicle level to maintain the vehicle operations. It is common for vehicles to acquire property-owning entities using SPVs.
  The costs incurred by SPVs, which sit in the holding structure above the acquisition structure, are included in vehicle expenses. Expenses of this nature which are charged to the acquisition vehicles should also be included in this category;
  Vehicle costs are composed of:

    - Amortisation of set-up expenses (which include initial costs such as placement fees and subscription fees);
    - Administration and secretarial fees;
    - Audit fees;
    - Bank charges;
    - Custodian fees;
    - Dead deal/abort costs;
    - Depository fees;
    - Directors' expenses/fees;
    - Distribution fees;
    - Investment advice fees;
    - Vehicle level asset management fees;
    - Legal fees (not property specific);
    - Marketing fees relating to vehicle;
    - Professional fees relating to vehicle;
    - Printing/publication fees;
    - Regulatory/statutory fees;
    - Trustee fees;
    - Valuation fees;
    - Winding-up fees;
    - Other/miscellaneous/ sundry expenses.

- Performance fees: these fees are fees payable out of the returns achieved by the vehicle to the manager or any related party. This would also include performance arrangements where part of the management activity is outsourced to third parties. It is composed of performance fees and carried interest.

Vehicle expenses are used in the calculation of the TER.

Property expenses, which are operating expenses directly attributable to the management and the maintenance of a specific property. These do not include costs for vehicle level asset management or investment advice which are in the TER, fees capitalised as acquisition costs and disposal costs that are deducted from sales processes. Property expenses are composed of:

- Amortisation of property acquisition costs;
- Property management fees;
- Property specific asset management fees;
- Property level strategic management advice;
- Project specific management fees;
- Property advisory fees;
- Letting and lease renewal fees;
- Marketing of vacant space;
- Property insurance;
- Development fees;
- Service charge shortfalls;
- Property staff costs.

Property expenses are used in the calculation of REER.

Finance expenses, which are specific fees and charges related to financing activities. These expenses are composed of:

- Bank/loan/overdraft/debt interest;
- Debt financing fees;
- Debt arrangement fees;
- Gain/loss on revaluation of financial instruments;
- Gain/loss on currency;
- Securities handling charges;
- Payments related to financial derivatives.

Taxation expenses, which are tax expenses that vary in proportion to the operating profit, capital profit and transfer between the vehicle and the underlying structures. Taxation expenses are composed of:

- Taxes related to the operation of the vehicle and financing structures;
- Investor related taxes which are outside the vehicle structure (e.g., withholding tax);
- Taxes on real estate transactions (e.g., transfer taxes, capital gains).

Exempt expenses, which are other items related to capital gains and losses. Exempt expenses are composed of:

- Gain/loss on property/investment disposals;
- Property valuation effects;
- Goodwill write-off.

8.3.4. Fee and expense metrics disclosures

FM.9. **The constituent elements of the metric calculation should be disclosed in the annual report.**

FM.10. **A disclosure table should be presented that provides an analysis of all the components of the fees charged by the manager, including any element of performance fee or carried interest or any other such arrangement, or by any other affiliate or related party of the manager.**

Related party disclosures	**20X1** EUR	**20XX** EUR
Management fees		
Vehicle costs		
Performance fees		
Property expenses		
Acquisition fees		
Disposal fees		
Debt arrangement fees		
Total fees charged		

FM.11. **The information in the following tables should be disclosed in the annual report.**

Fee metric disclosure table	**% NAV**	**% GAV**	**000** EUR
TER before performance fees (note A)			
TER after performance fees (note B)			
REER (note C)			
Weighted average INREV NAV			
Weighted average INREV GAV			

The following notes clarify the components of each fee and expense metric and should also be read in conjunction with the classifications shown in the fee and expense matrix.

A. This includes management fees and vehicle costs.

B. This includes management fees, vehicle costs and any performance fee which has either been paid, accrued or disclosed as a potential liability and included in the INREV NAV and INREV GAV.

C. This includes property expenses as defined by INREV.

8.4. Tools and examples

A sample calculation for the INREV fee and expense metrics can be found below.

8.4.1. Example - Calculation and presentation of the INREV fee and expense metrics

Classification	**Fee/Expense Item**	**Workings**	**Amount** (€ 000)
Management fees	Management fees		10,249
Vehicle Costs	Valuation fees		720
	Dead deal/abort costs		176
	Audit fees		33
	Bank charges		305
	Administration and secretarial fees		80
	Amortisation of formation expenses		500
Total vehicle expenses before performance fees		**A**	**12,063**
Performance Fees	Accrued carried interests	B	4,100
Total vehicle expenses after performance fees		**C = A+B**	**16,163**
Property Expenses	Property management fees		3,903
	Amortisation of property acquisition costs		475
	Property insurance		8
	Property staff costs		1,350
	Development fees		769
Total property expenses		**D**	**6,505**
Total expenses before financing costs and taxes		**E = C+D**	**22,668**
Average INREV NAV	Weighted average INREV NAV	F	1,465,411
Average INREV GAV	Weighted average INREV GAV	G	2,731,150
TER before performance fees	Fund expenses before performance / Average NAV	= A / F	0.82%
	Fund expenses before performance / Average GAV	= A / G	0.44%
TER after performance fees	Fund expenses after performance/ Average NAV	= C / F	1.10%
	Fund expenses after performance/ Average GAV	= C / G	0.59%
REER	Property expenses / Average GAV	= D / G	0.24%

8.5. Q&A

Question
How should the weighted average of INREV NAV and INREV GAV be calculated?

Answer
The computation methodology is explained through an example.

Assumptions

- INREV NAV Q4 20X0: 500,000
- INREV NAV Q1 20X1: 750,000
- INREV NAV Q2 20X1: 650,000
- INREV NAV Q3 20X1: 640,000
- INREV NAV Q4 20X1: 630,000

$$\text{Weighted average INREV NAV} = \frac{\frac{\text{INREV NAV Q4 20X0}}{2} + \text{INREV NAV Q1 20X1} + \text{INREV NAV Q2 20X1} + \text{INREV NAV Q3 20X1} + \frac{\text{INREV NAV Q4 20X1}}{2}}{4}$$

$$\text{Weighted average INREV NAV} = \frac{\frac{500{,}000}{2} + 750{,}000 + 650{,}000 + 640{,}000 + \frac{630{,}000}{2}}{4}$$

$$\text{Weighted average INREV NAV} = 651{,}250$$

9. Module 6 - Liquidity

9.1. Introduction

INREV's objective is to ensure all investors fully understand the liquidity rights that they have when investing into a vehicle and to establish common standards of behaviour among managers and investors in non-listed real estate vehicles in the context of the exercise of liquidity rights.

The manner in which equity is subscribed to and redeemed from a vehicle has a material impact on the interests of new and existing investors. Overseeing the establishment of a fair liquidity mechanism and the disclosure of it to investors should be one of the objectives of a vehicle's corporate governance activities. In some jurisdictions and in relation to certain vehicle structures the mechanism is prescribed by legislation or government regulations. In these cases, full disclosure of the rights, obligations and process should still be considered best practice to ensure the vehicle is suitable for the investor.

INREV recognises that many non-listed real estate vehicles in Europe are set up under, and governed by, a variety of different national laws. In an effort to minimise the conflict between local legislation and the liquidity guidelines, care has been taken to limit the scope of the liquidity guidelines. INREV intends to expand the Tax and Regulatory Tool to include information on liquidity mechanisms relating to open end vehicles in the various countries covered.

The importance of liquidity to individual investors varies enormously. Therefore, it is for the manager and the investors to determine at the launch of the vehicle the extent to which the vehicle should adopt these best practices. INREV would expect that the manager would adopt the best practices as a matter of policy and only diverge from them with the express consent request of all of the investors in a vehicle. The manager should report throughout the life of the vehicle on the level of adoption of the liquidity best practices.

Relationship with other INREV Guidelines

Given the liquidity guidelines focus on disclosure, there is significant overlap with other tools and examples published by INREV. In particular, the reader is encouraged to review and comply with the following:

- Corporate Governance guidelines;
- Reporting guidelines.

Structure of the principles and best practices

The liquidity guidelines have been prepared without regard to the natural sequences of a vehicle's life.

The liquidity guidelines are listed below. Where appropriate, further explanation is provided to assist your understanding.

9.2. Principles

P.14 **The fund documentation should clearly explain the liquidity rights of the investor. The manner in which equity is subscribed to and redeemed from a vehicle has a material impact on the interests of new and existing investors. Overseeing the establishment of a fair liquidity mechanism and the disclosure of it to investors should be one of the objectives of a vehicle's corporate governance activities. In some jurisdictions and in relation to certain vehicle structures the mechanism is prescribed by legislation or government regulations. In these cases, full disclosure of the rights, obligations and process should still be considered best practice to ensure the vehicle is suitable for the investor.**

P.15 **The terms and pricing of a new equity issue should be fair to both new and existing investors. Where this is not possible and a conflict of interest exists, the manager should fully explain the issues and impact on the respective investors' interests.**

P.16 **Investors should, where possible, have the right to transfer their interests in non-listed real estate vehicles without unreasonable restrictions as long as it does not prejudice the manager or other investors.**

P.17 **Constitutional documents should provide a clear legal and regulatory framework as to how such secondary transfers should be conducted.**

P.18 **Confidentiality arrangements over fund documentation should not, where possible, prevent the development of secondary market transactions.**

P.19 **Potential new investors should have access, subject to signing a standard non-disclosure agreement and with the consent of existing investors, to the same information as existing investors with respect to the vehicle's constitution, activities and performance. Additional information may be provided, subject to consent, but is not required by these guidelines.**

Additional information may include, though not as a compulsory requirement:

Investors' register (number of investors, largest investors, investors managed by the manager or external investors, etc.);
Unit issue/redemption disclosures (typically disclosed in the vehicle's financial statements);

Any further financial disclosures, forecasts, property portfolio details, valuation information, which are not specifically required by these guidelines.

Confidentiality agreements may be appropriate for additional information and the manager should be entitled to restrict access to such detailed information if the manager believes that its release to the third party could be prejudicial to the interests of the vehicle and all of its investors. Further guidance regarding confidentiality requirements can be found in 4.3.7.

9.3. Guidelines

9.3.1. Fund documentation requirements for liquidity framework

FD.24. **The vehicle's constitutional and marketing documentation should include liquidity rights of the investor and how to execute these rights, in both normal and exceptional circumstances, as well as detailed consideration of the exit strategy, and existing redemption arrangements.**

FD.25. **The fund documentation should include a liquidity protocol document explaining how all investors will be treated in different liquidity events including new equity issues, redemptions, secondary market transfers and exit.**

This document should be reviewed and updated throughout the life of the vehicle and made available to both existing and prospective investors.

FD. 26. **The vehicle's constitutional documents should include a statement of risk factors relating to liquidity. These should include as a minimum an analysis of the potential impact on the investors' interest if the manager exercises its rights in full to either defer payment or adjust the price payable on redemption. For open end vehicles the risks associated with the vehicle not reaching the optimal size should be clearly set out, with particular reference to the impact on portfolio construction and any liquidity events.**

9.3.2. Issues of vehicle equity

LQ.1. **Within any subscription agreement signed by investors when entering the vehicle, there should be a specific acknowledgement that they fully understand the liquidity restrictions in the fund documentation which should be written in a clear and comprehensive manner.**

LQ.2. **For open end vehicles the independent valuation cycle should reflect the timing for issuance and redemption of units.**

This will help to ensure that all investors are treated fairly.

LQ.3. **Any adjustment to the basis of valuation adopted by the manager which impacts the price of subscription or redemption should be disclosed to all investors, including the rationale for the adjustment.**

LQ.4. **The pricing mechanism for the issue of new units should, subject to local laws and regulations, be fair to all investors and be clear and unambiguous.**

LQ.5. **New issues should be based on a price determined using an up-to-date independent valuation of the underlying real estate assets and an up-to-date assessment of all other assets and liabilities of the vehicle.**

LQ.6. **Any special assumptions used by either the manager or the independent valuer should be disclosed to all parties.**

LQ.7. **The manager should maintain its anti-money laundering or "know your client" requirements for each type of investor that may subscribe to the vehicle. This should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle (including trustees, depositaries and administrators).**

LQ.8. **The issue of new equity into a closed end vehicle would normally be based on either the NAV at the time or at cost with a form of equalisation payment from those investors who commit after the first close of the vehicle.**

In the event that the NAV approach is used, managers should:

- identify any subscription premium that is payable and explain the approach to its calculation;
- ensure that the NAV is based on an up-to-date independent valuation of the underlying real estate assets;
- identify any special assumptions used by either the manager or the independent valuer in the calculation of NAV.

In the event that the cost plus equalisation approach is used, managers should provide a worked example to show the calculation of the equalisation amount to the incoming investor.

9.3.3. Redemptions of equity

LQ.9. **The manager should regularly advise investors of the redemption process, including the notice periods, redemption dates, pricing policy and timing of payments.**

LQ.10. **The manager should be required to disclose any rights it has to use discretion in setting the redemption price or the assumptions adopted by others in key components of the redemption price (e.g., property valuation). Any changes to normal practice as a result of the exercise of these rights should be communicated to investors without delay.**

LQ.11. **The manager should be under an obligation to disclose all its rights to defer payment of redemption proceeds. In circumstances in which such rights are exercised, the manager should communicate this to the redeeming investors without delay and provide reasons.**

LQ.12. **In the event a manager exercises its rights to either defer payment or materially amend the expected redemption price, the redeeming investors should have the right to withdraw their redemption request within a defined period.**

9.3.4. Secondary market transfers of equity

LQ.13. **The manager should document a policy on secondary transfers setting out which factors it will take into account when considering any transfer request.**

For open end vehicles the policy should explain how fairness to all investors is achieved, including how any potential conflicts between primary and secondary issues are dealt with.

LQ.14. **The manager should identify their anti-money laundering or "know your client" requirements for any potential investor.**

This should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle (including trustees, depositaries and administrators).

LQ.15. **The manager should state within the constitutional documents if a confidentiality agreement is required for the release of information to a third party (including potential investors, placement agents and third party trading platforms) and, if so, the manager should make a standard confidentiality agreement available for the respective parties' use at all times**.

A clear definition of "qualifying investor" should be incorporated into the constitutional documents identifying any specific restrictions in respect of domicile, financial strength, type of investor (e.g., any restrictions on competitors), minimum or maximum holding.

LQ.16. **If pre-emption rights for holders are required by the founding investors, they should be drafted on the basis of a right of first refusal during a limited period from service of notice.**

In the event that investors choose not to exercise their rights, the selling investor should be free to sell its interest in the open market, within an agreed range of the original offer price during an agreed period.

LQ.17. **A draft transfer agreement should be provided at launch, incorporating the minimum representations and warranties required from the relevant parties on any transfer, subject to any variations reasonably required by the manager from time to time.**

It is acknowledged that the final form of transfer agreement will be negotiated by all parties including the buyer, selling investor and the manager.

LQ.18. **Investors should carefully review the constitutional documents and the liquidity protocol document to ensure that both documents suit their needs.**

LQ.19. **The non-executive officer, if any, should oversee the establishment of a fair pricing mechanism for the issue and redemption of units and an appropriate secondary market transaction framework.**

LQ.20. **The manager should maintain an up-to-date protocol on liquidity mechanisms for the vehicle including its policy on secondary transfers.**

The policy should explain what services the manager will perform in relation to any secondary transfers and any fees or expenses to be charged by the manager or the vehicle. It should also state how the manager will interact with any placement agent appointed by the selling holder and any third party trading platform.

LQ.21. **The manager should:**

- **use all reasonable endeavours to co-operate with any investor wishing to sell its interest, subject to the agreement of reasonable representations and warranties to reflect the services being undertaken in the sale by the manager and any fees agreed between the parties for those services;**
- **provide regular reports to investors which contain the information set out in 9.3.7 Reporting Requirements;**
- **advise all holders as soon as reasonably practicable when it becomes aware of any equity available on the secondary market. The manager is not obliged to release details of the seller.**

In the event that the vehicle does not have external valuations carried out at least quarterly then the manager should be under an obligation to disclose all reasonable information required by a valuer and other financial advisers appointed by the selling investor and/or potential investors, subject to all parties entering into a confidentiality agreement restricting the use of the information. It is reasonable for a manager to refuse consent to a transfer under certain valid circumstances. These could include:

- if it is prejudicial to the tax status of the vehicle or its investors;
- if it affects the regulatory status of the vehicle;
- if, in the manager's opinion, the proposed transferee has insufficient financial strength to meet any undrawn commitments or is unwilling or unable to provide acceptable guarantees;
- if the transferee is unable to comply with all reasonable anti-money laundering requirements of the manager;
- if the proposed transferee is not a "qualifying investor" as defined.

In the event the manager becomes aware of any information which, in its opinion, renders any document or announcement materially inaccurate, incomplete or misleading or results in the failure to comply with any obligations in the constitutional documents, the manager may require the selling investor to cease distributing the offending document or announcement and/or make a correcting announcement.

LQ.22. **The selling investor should:**

- **subject to appropriate consent, be permitted to provide any potential investor introduced by an existing investor or its adviser with the information set out in the most recent annual and interim report and the SDDS. The manager should be indemnified against any claims by any third party, although it is reasonable for the existing investor to expect the manager to co-operate in the disclosure of material to assist in the verification of any marketing material that the investor produces;**
- **indemnify the manager in respect of any third party costs incurred by the manager or the vehicle**

in facilitating any transfer request;
- **indemnify the manager and the vehicle in respect of any costs arising out of any misrepresentation in respect of the vehicle in any selling documents.**

LQ.23. **The manager should:**

- **inform all holders of the services that it is willing to provide for facilitating a secondary market in the vehicle and the fees charged for these services;**
- **publish a policy statement on secondary transfers setting out what factors it will take into account when considering any transfer request. For open end vehicles the statement must explain how fairness to all investors is achieved, including how any conflicts between primary and secondary issues are dealt with. This should be freely available to existing and potential investors at all times;**
- **provide potential investors with reasonable access to its staff to explain the strategy of the vehicle and to arrange access to properties where appropriate subject to reimbursement of appropriate costs;**
- **advise the seller if any potential investor or group of potential investors would be considered unacceptable as a qualifying investor if requested to do so;**
- **provide a standard confidentiality agreement which it finds acceptable on request or, if appropriate, provide input into a confidentiality agreement prepared by the selling investor. The manager shall act reasonably in dictating the terms of any such agreement;**
- **maintain a statement of anti-money laundering requirements identifying the information required from any new investor or transferee. The statement should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle, such as trustees and administrators, to ensure that the requirements are comprehensive;**
- **treat all information provided to it on potential investors as confidential and not disclose it to any third party without consent unless required to do so by law;**
- **take all reasonable steps to ensure that the register of investors is updated without delay once in receipt of all valid documentation.**

LQ.24. **The non-executive officers should:**

- **oversee the activities of the manager with respect to secondary market transactions to ensure they are in compliance with the law and constitutional terms of the vehicle.**

LQ.25. **The selling investor should:**

- **inform the manager of its intention to market its interest or part of its interest in the vehicle;**
- **prior to commencing any marketing of an interest in a vehicle, review the constitutional documents to ensure it is fully aware of its rights and obligations;**
- **consult with the manager on the acceptability of potential investors at an early stage;**
- **investigate fully any selling restrictions imposed in any jurisdiction in which it intends to sell;**
- **ensure that any advisers instructed to act as placement agents on its behalf are properly authorised to act in that capacity in the countries in which the selling investor intends to market its interest;**
- **ensure that any marketing material used for the sale of its interest and any distribution of the material is in accordance with the terms of the vehicle's constitution and all relevant regulatory requirements;**
- **take all reasonable steps to restrict the marketing of its interest to "qualifying investors" as**

defined in the vehicle's constitutional documents;

- **in any public statements regarding the sale, make it clear that it is speaking in its capacity as an investor and its comments do not necessarily reflect the views or beliefs of the manager and other investors.**

9.3.5. Vehicle winding up

LQ.26. **The manager should seek to mitigate the scale and duration of any ongoing liabilities in sales contracts so that all underlying vehicle entities can be wound up as early as is reasonably possible.**

LQ.27. **The manager should keep investors advised of any ongoing liabilities once assets are sold and the impact on the timing of the ultimate winding up of the vehicle. Ongoing liabilities should be reported as a percentage of capital commitments to each project and in the aggregate.**

LQ28. **The manager should limit the amount of capital that can be recalled by the manager once distributed to investors. The period in which the capital can be recalled should also be limited in time and clearly disclosed in fund documentation and reports.**

LQ29. **The manager should keep investors advised on the level of recallable capital and the manager's expectations for its use.**

LQ30. **Any investment restrictions imposed on a closed end vehicle should cease to apply during the liquidation phase of the vehicle.**

9.3.6. Vehicle life extensions

LQ.31. **The vehicle's constitutional documents should state the rights and obligations of unit holders and the manager regarding extensions (e.g., investor approval rights and changes to management fees during an extension period).**

LQ.32. **Where the manager has discretion to extend the vehicle life, the manager should disclose in the annual and quarterly reports throughout the vehicle's life whether it believes such an extension will be necessary.**

LQ.33. **If the manager elects to extend the life of the vehicle, the manager should disclose the rationale for doing so, including the financial benefits to the investors expected from doing so.**

LQ.34. **Where the manager wishes to extend the vehicle term with the consent of its investors, the manager should provide the following information to all investors:**

- **financial analysis of the effect of liquidations now as against during a delayed period;**
- **full impact assessment of deferred exit (e.g., debt maturities, hedging instruments, joint venture termination provisions etc.);**
- **cost implications;**
- **revised business plan for each asset;**
- **confirmation of the manager's terms of appointment (including fees) during the extension**

period. The presumption is that fees will be discussed for the extension period.

LQ.35. **The manager should provide vehicle extension proposals as soon as it becomes clear that an extension may be required, and in any event a minimum of 12 months prior to the original vehicle termination date.**

LQ.36. **The manager should allow investors a minimum period of eight weeks to consider proposals prior to a formal vote.**

LQ.37. **Investors have the right to appoint advisors to act for them jointly at the vehicle's cost. Appointments are to be approved by the Investment Advisory Committee (IAC) or a majority of investors if there is no IAC.**

LQ.38. **In the event the vehicle life is extended beyond the original term, best practice is for the manager's appointment to be terminable without cause at any time after the original term with the approval of a supermajority of investors.**

9.3.7. Reporting requirements

LQ.39. **In quarterly and annual reports to investors, the manager should:**

- **Provide a table showing the equity issued, equity redeemed, and equity transferred during the financial year. Also state the outstanding redemption or subscription requests and outstanding lock-in restrictions as at year-end.**
- **Identify the risks to the vehicle or the pricing of the vehicle NAV as a result of liquidity events. Liquidity events should include equity inflows, redemptions and any actual or potential breaches of debt covenants.**

LQ.40. **The managers should advise all investors of the risks that any one investor, or a group of investors controlled by one decision-maker/adviser, may gain negative control over key decisions of the vehicle.**

10. Module 7 - INREV data delivery

P20. **The manager should provide information requested by INREV in the context of industry data analysis and performance measurement.**

DD.1. **The manager should provide INREV with up-to-date vehicle data and financial performance data to be included in the INREV Vehicle Universe and INREV Index within eight weeks of the end of each calendar quarter.**

Managers are encouraged to submit the Fund Level data of the INREV SDDS to INREV, which includes all necessary data for performance measurement plus additional data which allows for further industry benchmarking.

11. Definitions

These definitions have been developed in order to achieve a common understanding of the different technologies and terminologies. However, these definitions do not hold any legal value and as such should not be used in legal fund documentation.

11.1. Definitions

Acquisition fee

The fees (either expensed or capitalised) accrued to the vehicle during the quarter for the acquisition of assets.

Amount of acquisitions

Total amount of completed purchases (including acquisition costs) during quarter.

Amount of capital expenditure

Costs related to capitalised property improvements other than operating expenses according to IFRS.

Amount of disposals

Total amount of sales after deduction of sales-related costs.

Amount of new / renewed loans

Total value of new loans (additional borrowing / refinancing).

Asset management fee

A charge paid to a vehicle's manager for its services in managing the assets on behalf of the vehicle.

Capital gain/loss (unrealised)

All unrealised capital gains / losses on all vehicle assets and liabilities.

Capital gain/loss (realised)

All realised capital gains / losses on all vehicle assets and liabilities.

Carried interest

A carried interest is equivalent to the share of a vehicle's profit that will accrue to the manager.

Cash management fee

A charge for treasury services provided by the manager or a third party.

Catch-up

Catch-up takes effect when an investor's returns reach the defined hurdle rate, giving them an agreed level of preferred return. The manager then enters a catch-up period, in which it may receive an agreed percentage of the profits until the profit split determined by the carried interest agreement is reached.

Clawback

An arrangement in which either the investors or the manager in a vehicle agree to use their prior dividends or performance fees received, in the case of investors, to cover any subsequent cash deficiencies for performance fees and, in the case of the manager, to cover poor performance over the entire life of the vehicle.

Closed end vehicle

A vehicle is closed end where:
- a formal limit is placed upon the maximum amount of capital which may be accepted into the vehicle without existing investors' consent;
- it has a finite life;
- there is limited liquidity, but investors wishing to purchase a stake in the vehicle may buy units from existing investors (once the vehicle is closed); and
- redemption of units at the investors' choice can otherwise only occur at end of the life of the vehicle, and / or at interim periods of over 12 months' notice.

Commitment

A commitment to a fund is the total agreed capital a manager can draw down from an investor, during the commitment period, with a specified notice as outlined in the constituent fund documentation.

Commitment fee

A commitment fee is a charge to investors on undrawn committed capital for the duration of the commitment period.

Commitment period

The commitment period is the period of time after the first closing during which an investor is obliged to contribute capital upon receiving a drawdown notice from the manager.

Core fund or vehicle

See INREV style classification tool.

Cost of development portfolio

All costs paid up in relation to all assets under development.

Currency exposure

Amount of foreign currency as a ratio of the vehicle currency, expressed as percentage of NAV.

Current development exposure as percentage of GAV

The percentage of vehicle GAV that is invested in development projects. This equals fair value of development portfolio/ GAV of vehicle.

Current equity multiple (Gross)

Current equity multiple (Gross) is the same as the Current equity multiple (Net) but adjusted so as to remove the effect of vehicle-level fees, taxes and carried interest deductions.

This uses as a numerator the aggregate of the cash flows used to calculate the IRR since inception gross and as a denominator total capital drawn down (for the avoidance of doubt, not Total capital commitments drawn).

Current equity multiple (Net)

Current equity multiple (Net) = [Total return of capital + Total Income/Interest/Dividend distributions + Fair value of vehicle (NAV)] / Total capital drawn down

This uses as a numerator the aggregate of the cashflows used to calculate the IRR since inception net and as a denominator the Total capital drawn down since inception (for the avoidance of doubt, not Total capital commitments drawn).

Debt service coverage ratio (DSCR)

Projected NOI over the following four quarters as a ratio of projected interest and scheduled amortisation payments on bank (not shareholder) loans over the same period. This is a portfolio metric which may not reflect precisely the varying stipulations of each loan facility of the vehicle but which aims to give an indication of the vehicle's general ability to service its debt; for the avoidance of doubt, the DSCR calculation does not take into account cash in bank.
Calculation: DSCR = projected annual NOI for next four quarters / projected annual interest expense and amortisation payments over next four quarters.

Development management fee

Fee accrued to the manager for its services in providing development management services including supervising the development, architect and professional team and any project manager. Fees may be a proportion of total development cost/capital expenditure.

Disposal fees

The fees (either expensed or capitalised) accrued to the vehicle for the disposal of assets.

Dividend (distribution) yield

The amount of income (or shareholder loan interest payments) the vehicle distributes to investors on a rolling 12 months basis as a percentage of the average NAV over the same period.

End of initial vehicle term (termination date)

The earliest stated termination date in the fund documentation.

End of investment period

The end of the investment period as defined in the fund documentation.

End of maximum extendable vehicle term

The maximum vehicle termination date based on either pre-determined extensions at the discretion of the manager or extensions with advisory board or investor vote.

Estimated rental value (ERV)

The current rent at which space within a property could reasonably be expected to be let given current market conditions.

Exempt fees and charges

Specific fees and charges, which are not included in the TER and REER calculations. See example of exempt fees and charges in the Fee and Expense Metrics module.

Fair value (IFRS definition)

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The IFRS definition of fair value is assumed in the INREV Guidelines, except where specifically mentioned otherwise.

Fair value of vehicle according to INREV Guidelines

NAV as reported by the manager in accordance with the INREV NAV module.

Fair value of investment portfolio

Fair value of investment properties and trading properties intended for sale (properties that are stabilised and in lease-up) in accordance with the Property Valuation module.

Fair value of investment property

Fair value of investment property as determined in accordance with the Property Valuation module.

Final closing

The final closing occurs at the end of the equity raising period set by the manager when the vehicle is closed to new commitments.

Financing fee

Fee accrued to the manager for arranging external financing of a vehicle.

First closing

A date specified by the manager on which the vehicle is launched, the initial subscription is completed and the commitment period commences.

Foreign exchange difference

IFRS defines exchange difference as the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. In the context of the SDDS, it includes exchange movements and valuation of hedge instruments.

Fund or Vehicle

Terms used to describe a structure where at least three investors’ capital is pooled together and managed as a single entity with a common investment aim. For the purposes of these definitions, these terms can be used interchangeably.

Fund style or Vehicle Style

The manager’s self-declared style, if applicable.

Funds under management

The NAV of the vehicles that the manager manages for itself and its clients, as well as any undrawn commitments from its clients.

Gross asset value of vehicle (including pro rata share in joint ventures)

The gross property value plus the value of any further assets at market value as per the chosen valuation principles.

Typically further assets to be included are other fixed assets and current assets such as:

- investments in other vehicles, securities and plant, machinery etc.; and

- cash for long term investments, cash derived from income, debtors, short term investments (i.e., less than 1 year) and prepayments.

Gross equity multiple of vehicle realised

Equity multiple of portion of equity invested that has been divested (regardless of whether the proceeds have been distributed), before any vehicle-level fees, taxes and carried interest are deducted.

Gross property value

The value of property held at the latest external or internal valuation.

Gross initial yield

The passing rent divided by the property value.

Gross IRR

The absolute IRR of the property portfolio before any vehicle-level fees are deducted.

Gross IRR of vehicle realised

IRR of portion of equity invested that has been achieved from actual divestments (regardless of whether the proceeds have been distributed or reinvested), before any vehicle-level fees, taxes and carried interest are deducted. Ignores any unrealised returns or distributions not derived from disposals and does not include NAV as an end value.

Gross operating income

The gross income of all investment properties before deducting general operating expenses. Gross income includes rental income, and all other income associated with a property (e.g., parking). It relates to the operating portfolio of the vehicle and not (re)development assets which are reported under 'other net income'.

Gross property return

The absolute unleveraged return of the property portfolio over a stated period before any vehicle-level costs are deducted.

Gross return

The absolute return of the vehicle over a stated period before any vehicle-level fees and expenses are deducted.

Hurdle rate

The annualised percentage return beyond which the outperformance of net investor returns are shared with the manager.

Income return

Income (excluding capital gain/losses) / weighted average INREV NAV.

Internal valuation

Internal valuation is a valuation carried out by a valuer who is employed by either the entity that owns the assets or a related company or manager. An internal valuer is generally capable of meeting all the requirements of independence and professional objectivity, but for reasons of public presentation and regulation may not always be acceptable to fill the role of an external independent valuer.

Interest service coverage ratio

Projected NOI over the following four quarters as a ratio of projected interest payments on bank (not shareholder) loans over the same period.   This is a portfolio metric which may not reflect precisely the varying stipulations of each loan facility of the vehicle but aims to give an indication of the vehicle's general ability to service its debt. For the avoidance of doubt, the ISCR is calculated without reference to cash in bank.

Investment period

The period of time during the life of the vehicle that a vehicle can acquire assets and the proceeds of any asset disposals can be re-invested.

Interest rate hedging ratio

Percentage of the nominal value of debt excluding shareholder loans of which the interest rate risk is hedged through derivatives.

Internal rate of return (IRR)

The annual rate of return based on the present value of a capital investment over a holding period expressed as a percentage of the investment.

IRR since inception gross of fees

The equity IRR at vehicle level before any vehicle-level fees, taxes and carried interest are deducted. This calculation is from inception through to the current quarter adopting NAV (adjusted to eliminate the effect of fees, taxes and carried interest if necessary) as the final end value

IRR since inception net

The equity IRR of the vehicle net to investors after all vehicle-level fees, taxes and carried interest are deducted. This calculation is from inception and based on actual distributions through to the current quarter end and adopting NAV (adjusted to allow for the effect of estimated fees, taxes, and carried interest if necessary) as the end value.

Key men clause

A provision intended to ensure that the management professionals making and managing the investments on behalf of the vehicle are the same individuals who the investors expect to manage the vehicle and / or the individuals responsible for the prior track record(s). Key person provisions often allow investors to suspend further investments in the vehicle if certain key personnel leave the manager.

Loan to value

The consolidated total external leverage at the vehicle level as a percentage of the GAV of the vehicle.

Loan to equity

The consolidated total leverage at the vehicle level as a percentage of the NAV of the vehicle.

Manager

The vehicle's manager, whether or not it has also assumed or delegated other functions, such as those of property manager.

Management fees

Various fees paid to the manager for its management services, excluding any fees charged for third party services which the manager recharges to the vehicle.

Maximum LTV

The consolidated total external leverage at the vehicle level as a percentage of the GAV of the vehicle.

Depending on the accounting standards, a manager will mark the debt to market, with any gain or loss being reflected in the vehicle's profit & loss account.

Investors' subscriptions in the form of loans (e.g., for tax purposes) should be excluded from the calculation.

Non-controlling effects on the INREV NAV adjustments

This adjustment represents the impact on NAV of the combined effect of the recognition of minority interest on the INREV NAV adjustments (the INREV NAV excluding non-controlling effects).

Net asset value (NAV)

A vehicle's GAV less all liabilities as per the chosen valuation principles.

Net equivalent yield

A time-weighted average of the net initial yield and reversionary yield, representing the return a property will produce based upon the timing of the income received.

Net financing cost

All costs related to external debt (e.g., interest expenses or received, extension fees, prepayment fees, cost of related interest rate swaps), excluding amortisation and distribution to investors.

Net IRR

The absolute leveraged IRR of the property portfolio after all vehicle-level fees are deducted. (source: www.nationalcne.org/faq/re_glossary.htm)

Net initial yield

The passing rent or net operating income divided by the gross property value plus notional acquisition costs.

Net operating income (NOI)

The gross operating income of a property for the period less operating expenses. NOI relates to the operating portfolio of the vehicle and not (re)development assets which are reported under 'other net income.

Net return

The amount an investor earns over the stated period after all vehicle-level fees and expenses including taxes and servicing of debt are deducted.

NOI yield

NOI / fair value of investment portfolio.

Nominal value of debt excluding shareholder loans

This includes third party portfolio facilities or credit lines (and any drawn equity bridge), with all currencies converted to vehicle currency.

Number of assets

Number of assets as defined by the manager.

Number of new / renewed loans

Total number of new loans (additional borrowing / refinancing).

Offer price

The amount that an investor must pay (relative to NAV) if it wishes to subscribe to a vehicle.

Open end vehicle

A vehicle in which:

- no formal limit is placed upon the maximum amount of capital which may be invested into the vehicle;
- trading takes place either through the vehicle on an issue / redemption basis or on a matched bargain basis; and
- the issue / redemption of units is subject to conditions as to (among others) price, notice period, number of units and payment period.

Operating expenses

Non-recoverable costs incurred during the day-to-day running of a property, such as repairs and maintenance, insurance, property management fee, utilities, supplies, property taxes, non-recoverable service charge, etc. They exclude net finance costs, vehicle-level expenses, vehicle-level fees, capital expenditure, depreciation and income taxes.

Operational result

NOI plus other net income.

Opportunistic vehicle

See INREV style classification tool.

Other net income

Non-recurring non-operating profit income, calculated by subtracting related operating expenses from the revenue of development projects and non-rental revenue.

Percentage of total capital commitments invested

Total capital commitment drawn / Total capital commitments (by all investors).

This expresses the amount of the capital commitment to the vehicle that is currently invested (allowing for reinvested returned capital) as a percentage of the total vehicle size in terms of total commitments.

Performance fee

The fee payable out of the returns achieved by the vehicle to the manager where the fee is calculated, either during the life of the vehicle or at the termination of the vehicle, as a percentage of the vehicle's performance over a designated hurdle rate.

Projected IRR from inception to end - gross

Current projected gross return performance from inception to end of vehicle term (gross of taxes, fees and carried interest) per the manager's estimate, or in the case of an open end vehicle over a period as agreed between the manager and investors.
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Projected IRR from inception to end – net

Current projected net return performance from inception to end of vehicle term (net of all taxes, fees and carried interest) per the manager's estimate, or in the case of an open end vehicle over a period as agreed between the manager and investors.

Projected equity multiple – gross

Current projected gross equity multiple from inception to end of vehicle term (gross of taxes, fees and carried interest) per the manager's estimate, or in the case of an open end vehicle over a period agreed between the manager and investors. This is the weighted average of the equity multiple of realised investments and the manager's projection of the equity multiple of unrealised investments.

Projected equity multiple - net

Current projected net equity multiple from inception to end of vehicle term (net of all taxes, fees and carried interest) per the manager's estimate, or in the case of an open end vehicle over a period as agreed between the manager and investors. This is the weighted average of the equity multiple of realised investments and the manager's projection of the equity multiple of unrealised investments.

Pre-emption rights

The rights given to existing investors that entitle them to buy a stake from another existing investor who is looking to exit the vehicle before that stake is offered to the market.

Property expenses

Operating expenses directly attributable to the acquisition, management or disposal of a specific property as determined in accordance with the Fee and Expense Metrics module.

Property-level loan to value

Nominal value of debt excluding shareholder loans / total fair value of investment and development portfolio.

Property management fee

A charge paid to a property manager for managing the operations of individual assets within a vehicle.

Real estate expense ratio (REER)

Annual vehicle-level and property-specific costs over a 12 month period as a proportion of average vehicle assets (average GAV and average NAV).

Recallable capital

Returned capital that has been distributed that can be recalled by the manager, being a portion of the capital that is recallable once it has been distributed. The existence of recallable capital increases investors' remaining capital commitments.

Redemption

The return of an investor's equity holdings.

Redevelopment

Includes all activities to obtain or change building or land use permissions and the financing and construction works for the project(s) with the intention of enhancing the value of the property. This also includes improvements to enhance the utility or energy conservation of a property.

The threshold for the (re)development is that if ≥15% of GAV of an individual asset is spent on (re)development, the whole GAV of that particular asset will be regarded as (re)development. If <15% of GAV of an individual asset is spent on (re)development, the whole GAV of that particular asset will be regarded as refurbishment.

Related parties

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions. (source: IAS 24).

Remaining capital commitment

The vehicle's total remaining capital commitments (including recallable capital, where applicable). Remaining capital commitment = Total capital commitments - Total capital commitment drawn + recallable capital since inception.

Restrictions on transfer

The conditions outlined by a manager on the transfer of stakes in a vehicle between parties.

Revaluation to fair value of derivative financial instruments held for hedging

The adjustment represents the impact on NAV of the recognition of derivative financial instruments measured at fair value. If a vehicle does not revalue, this should be clearly indicated.

Reversionary income

The estimated increase in rent at next renewal / review based on ERV.

Reversionary yield

The estimated rental value as a percentage of gross property value.

Secondary trade

A transaction whereby an existing investor transfers units or shares in an open or closed end vehicle to another investor (either a new investor, or one already invested in the vehicle) at an agreed price and on specified terms, without the occurrence of a new issue or redemption.

Set-up costs

All those costs that relate directly to the structuring and establishment of a viable vehicle.

Start of investment period

The beginning of the investment period during which the vehicle can acquire assets.

Subscription agreement

A legal agreement made by an incoming investor fixing the amount of the consideration paid, or to be paid, for participation in the vehicle which is at least equal to the minimum investment.

Subscription fee

A charge levied on investors subscribing for units in a vehicle by the manager.

Suspension rights

The rights granted to the manager to suspend payments under a redemption mechanism.

Target percentage non-income producing investments

The target percentage of investments in non-income producing investments with the aim of generating future income after (re)development, refurbishment or re-letting activities.

Note: Income producing investments are investments in assets for which construction work has been completed and which are owned for the purpose of letting, producing a rental income that is negotiated at arm's length with third parties.

Non-income producing investments are investments in assets (either properties or land) that at the time of investment are not producing any rental income and for which either (re)development, refurbishment or re-letting activities have to be undertaken before rental income is possible.

Target percentage of (re)development exposure

The percentage of overall vehicle target GAV at any point in the life of the vehicle. Development exposure includes any development or redevelopment activities but excludes refurbishment.

Target return derived from income

Percentage of target return derived from rental income that a vehicle is able to pay out on an annual basis.

Tax effect of the adjustments

An adjustment representing the tax impact on NAV of certain specified adjustments if not already taken into account in the adjustment of deferred taxes.

Tax paid

All taxes paid at vehicle level.

Termination clause

A clause defined within the fund documentation that, when exercised, can lead to the termination of the agreement between the manager and the vehicle or the termination of the vehicle itself.

Total capital commitments (by all investors)

Total capital commitments refers to the total committed capital a manager can draw down from all investors with a specified notice as outlined in the constituent fund documents.

Total capital commitment drawn

Total capital drawn down since inception less Total returned capital recalled since inception. This relates to the amount of actual capital commitment that has currently been drawn, net of any reinvested capital. This amount cannot therefore exceed total capital commitments.

Total capital drawn down

The capital (including shareholder's loans) injected by investors so far, including any returned capital that has been reinvested. The total can therefore exceed investors' total commitment. This does not reflect any returned capital that has been distributed.

Total current outstanding capital

The total capital drawn (including investment in both shareholder equity and shareholder loans, where applicable) less total return of capital (both recallable and non-recallable). Return of capital does not include income distributions.

Total return of capital

Total return of capital distributions to date as set out in the vehicle distribution waterfall, including recallable capital distributions.

Total returned capital recalled

Any capital subject to recall that has been returned during the investment period and subsequently reinvested.

Total return (net and unlevered)

Time-weighted net and unlevered return.

Total return net to investor

This uses as a numerator the aggregate of the cash flows used in the calculation of the gross IRR of a vehicle with respect to realised investments and as a denominator the total equity invested in respect of those same realised investments.

Total debt maturities in 1 year

Nominal value of debt maturing within 1 year, in the form of loans and excluding hedging debt.

Total debt maturities in 1-2 year

Nominal value of debt maturing between 1-2 years, in the form of loans and excluding hedging debt.

Total debt maturities in 2-3 years

Nominal value of debt maturing between 2 - 3 years, in the form of loans and excluding hedging debt.

Total debt maturities in 3-4 years

Nominal value of debt maturing between 3 - 4 years, in the form of loans and excluding hedging debt.

Total debt maturities in 4-5years

Nominal value of debt maturing between 4- 5 years, in the form of loans and excluding hedging debt.

Total debt maturities in >5 years

Nominal value of debt maturing over 5 years, in the form of loans and excluding hedging debt.

Total expense ratio (TER)

Annual operating costs borne by a vehicle over one year as a proportion of average vehicle assets, calculated in order to enable fairer comparisons of costs between vehicles than the management fee alone.

Vacancy (based on estimated rental value)

Estimated rental income of vacant space / (contractual rental income of occupied space + estimated rental income of vacant space).

Vacancy (based on leasable floor space)

A measure of the level of vacant space, which is calculated based on net leasable floor space.

Value added vehicle

See INREV style classification tool.

Vehicle expenses

Expenses incurred predominantly at vehicle level to maintain the vehicle operations as determined in accordance with the Fee and Expense Metrics module.

Vehicle-level loan to value

Nominal value of debt excluding shareholder loans / GAV of vehicle (including pro rata share in joint ventures)

Vehicle-level loan-to-cost

The consolidated total external amount of leverage at the vehicle level as a percentage of the (historical acquisition) cost of the vehicle.

Void rate

A measure of the level of vacant space, which is calculated based on floor space or estimated rental value.

Waterfall calculation

When returns are paid to more than one party in a vehicle, the order of priority for cash flows of these is set out in the waterfall calculation.

Weighted average cost of debt excluding shareholder loans

The interest rate (base rate and margin) on each external debt instrument in the vehicle weighted by the size of such instruments.

Weighted average maturity of debt excluding shareholder loans (years)

The maturity on each external debt instrument in the vehicle weighted by the size of such instruments.

Weighted average cost of debt

The interest rate on each external debt instrument in the vehicle weighted by the size of such instruments.

Weighted average lease expiry

Weighted average duration of lease contracts based on rent to the shorter of the first tenant break or lease expiry.

12. Q&A

Please find a list of all questions and answers used in the INREV Guidelines below.

Chapter	Question
4.5	To what extent should the Board of an AIF monitor the activities and level of compliance of its appointed AIFM?
5.5	How should a manager apply the interim and annual reporting requirements when four detailed quarterly or two semi-annual reports are provided to investors?
7.5	Capitalisation and amortisation of set-up costs and acquisition expenses: What is the rationale behind the adjustments in determining the INREV NAV whereby set-up costs and acquisition expenses are capitalised and amortised over five years? Do these adjustments not simply inflate the NAV of the entity given that the property portfolio is already included at its fair value in the NAV calculation?
7.5	Calculation of adjustment in respect of deferred tax liability How should this adjustment be calculated? Is it appropriate to calculate this as a fixed percentage (e.g., 50%) of the deferred tax liability calculated for the vehicle under IFRS/local GAAP on a portfolio basis or any other aggregate basis?
7.5	Calculation of adjustment in respect of transfer taxes How should this adjustment be calculated? Is it appropriate to compute this as a fixed percentage (e.g., 50%) of the transfer taxes for the vehicle under IFRS/local GAAP?
7.5	Investment in an associate/joint venture How should the INREV Guidelines be applied when valuing an entity's investment in an associate/joint venture which is accounted for in the IFRS/local GAAP accounts of the entity (using either the equity method or proportionate consolidation)?
7.5	Portfolio premium/discount. Should the INREV NAV calculation include a portfolio premium/discount where, for example, the independent appraiser's valuation report includes a statement that the portfolio as a whole would command a premium/discount in addition/decrease to/of the individually appraised values of each property?
7.5	Held-to-maturity derivatives Is it not the case that, for open end vehicles, there is no need for fair valuations for hedging derivatives on the basis that upon maturity the value of these should be nil?

13. Tools and examples

The tools and examples are to be used to assist in the application of the guidelines. The tools and examples do not form part of the guidelines and are not part of the compliance framework.

Tools support market participants in assessing specific situations and in complying efficiently with INREV Guidelines and standards.

Examples serve as a pattern to be followed by market participants to illustrate a certain standard.

Please find a list of all tools and examples used in the INREV Guidelines below.

Chapter	Tool/Example
3.1.1	Example - Compliance decision tree
3.1.2	Tool – INREV compliance checklist
3.1.3	Example - Statement of level of adoption of INREV Guidelines
4.4.1	Tool - Corporate governance self-assessment
5.4.1	Tool - Debt and derivative disclosures note
5.4.3	Tool - Standard Data Delivery Sheet
5.4.4	Example - Sustainability reporting recommendations
5.4.5	Example - Capital calls and distribution
7.4.1	Example - INREV NAV computation
8.4.1	Example - Calculation and presentation of the INREV fee and expense metrics
13.1.1	Example – structure of a Private Placement Memorandum
13.1.2	Tool – Due diligence questionnaire for managers
13.1.3	Tool – Due diligence questionnaire for fund of fund managers and multi-managers
13.1.4	Tool – Standard non-disclosure agreement

13.1.1. Example - structure of a Private Placement Memorandum

To facilitate proper fund documentation, INREV proposes a suggested minimum table of contents for private placement memoranda.

General information and contact details, *including*

I. Disclaimer.

Executive Summary

Market Environment and Opportunity

Investment Strategy, *including*

I. General Strategy (with clear description of restrictions);
II. Leverage Strategy;

III. Exit Strategy and liquidity mechanism; and
IV. Risk Factors.

Manager Profile, *including*

I. Organisational structure;
II. Strategy / products;
III. Real Estate Asset Management Business;
IV. Staff; and
V. Description of the various entities – internal and external - that have a role in the vehicle, (e.g., custodian, property manager, administrative agent).

Investment Process and Portfolio Management, *including*

I. Sourcing deals;
II. Portfolio management;
III. Investor influence;
IV. Co-Investment; and
V. Conflicts of Interest.

Investment Performance, *including*

I. Track record;
II. Gross / Net returns including financial / cash flow projections with associated assumptions and tax leakage; and
III. Reporting.

Principal Terms, *including*

I. Term of Vehicle;
II. Vehicle size;
III. Structure of investments;
IV. Leverage;
V. Key personnel;
VI. Alignment of Interest;
VII. Fees / Expenses;
VIII. Minimum Commitment requirements, Commitment period and closing schedule;
IX. Target capital raised;
X. Distributions; and
XI. Termination provisions (including a termination clause).

Taxation

Risk Factors and Conflicts of Interest

Appendices, *including for example*:

I. Main constitutional document;
II. Subscription agreement;
III. Details of seed portfolio; and
IV. Worked example of the performance fee.

13.1.2. Tool – Due diligence questionnaire for managers

Available on INREV Website (www.INREV.org/guidelines)

13.1.3. Tool - Due diligence questionnaire for fund of fund managers and multi-managers

Available on INREV website (www.INREV.org/guidelines)

13.1.4. Tool – Standard non-disclosure agreement

Available on INREV website (www.INREV.org/guidelines)