

# Report for AREF

<http://www.johnforbesconsulting.co.uk/aref-report>

www.pwc.co.uk

## *Unlisted funds - Lessons from the crisis*

### Report for The Association of Real Estate Funds

**January 2012**

*AREF commissioned PwC to undertake research into the behaviour and practices of its member funds to determine whether there are lessons to be learned from the crisis.*



January 2012



# Unlisted funds - Lessons from the crisis

## January 2012



Interviews with:

- Representatives of AREF member funds;
- Members of the AREF investor committee;
- Others in the industry.

covering.....



# Unlisted funds - Lessons from the crisis

## January 2012



A broad range of issues.....

### Key areas of focus from the Report

- Oversight of key decisions and independent representation of investors;
- Valuation policy and practice for both direct and indirect holdings;
- Creation and redemption policy and practice;
- The need for an active and transparent secondary marketplace;
- Communication and transparency
  - at the point of investment and subsequently
  - from manager to investor
  - from investor to manager;
- Fee structures and their potential influence on behaviour;
- Alignment of interests and conflict management
  - between investors and manager
  - between manager and capital raisers
  - between different investor types
  - between departing, incoming and continuing investors;
- Liquidity
  - the mismatch between dealing frequency and property transaction timescales
  - the cost to investors of (often unused) liquidity;
- Debt management
  - disclosure of stress testing.



# Unlisted funds - Lessons from the crisis January 2012



*There is a trade-off between liquidity, volatility, performance and risk*

Closed-ended funds

Daily traded open-ended funds and listed vehicles



# Unlisted funds - Lessons from the crisis

## January 2012



*There is a trade-off between liquidity, volatility, performance and risk*

Closed-end funds

Correcting specific matters identified in the report

Daily traded open-ended funds and listed vehicles



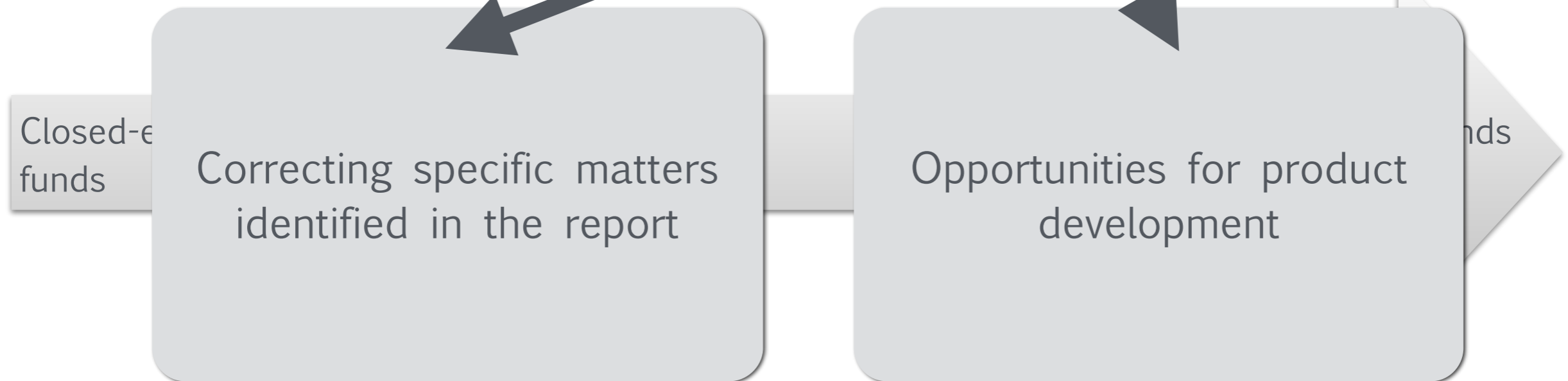


# Unlisted funds - Lessons from the crisis

## January 2012



*There is a trade-off between liquidity, volatility, performance and risk*



# Unlisted funds - Lessons from the crisis

## January 2012



Improved governance  
Greater transparency  
Stronger controls environment  
More independent supervision



Blurring of the boundaries between open-ended and closed-ended funds



A new style of fund



# Unlisted funds - Lessons from the crisis

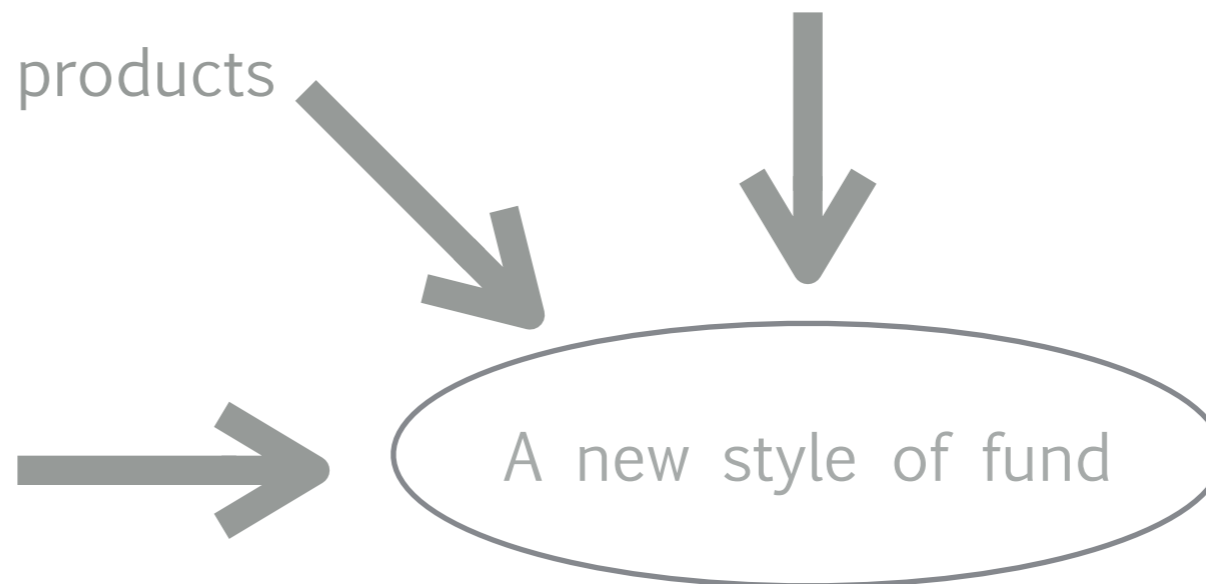
## January 2012



Closed-ended funds becoming more open-ended

New fund products

Open-ended becoming more closed-ended





# Unlisted funds - Lessons from the crisis

## January 2012



Three key points from 2012 for AREF to consider further:

- Semi-open-ended funds and the challenges of liquidity;
- The challenges of non-alignment of investors and the co-mingling of different types of investors (e.g. institutional and retail);
- The role of the manager in regulating inflows of capital.



# Unlisted funds - Lessons from the crisis

## January 2012

We concluded in 2012:

### *The importance of continuing the dialogue*

Many of the issues identified in this report require further debate. It is important not only that there is a dialogue between fund managers and investors, but also that that dialogue continues into the future. Many of the fund managers and investors interviewed expressed the concern that the collective memory in the industry might be short. A continuing dialogue and debate on these matters will hopefully ensure that this is not the case.



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