# A review of real estate fund behaviour following the EU referendum

## A report for The Association of Real Estate Funds

AREF

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## Contents

# Foreword by AREF

The EU Referendum was an unprecedented event, the result of which triggered widespread uncertainty in markets, no more so than in real estate. The resultant suspensions of a number of retail investor real estate funds, following much greater than normal redemptions, was widely reported, even making the 10 o'clock news, but often misunderstood, whereas the experiences of investors and managers in institutional open-ended funds was very different.

From before the Referendum date and for many months afterwards we were in close contact with both groups of funds and, in the light of the very different experiences, we wanted to take stock whilst events were fresh in minds to see what, if any, lessons could be learnt. We also wanted to ensure that the report was seen to be objective and independent and have been delighted to work again with John Forbes.

This report is the result of extensive interviews and feedback from participants across the industry and was initially published as a Consultation Draft to enable others within and without the real estate funds industry to participate in fine-tuning it; we thank all those who provided comments for their time so generously given. The issues highlighted in the report will enable us to engage constructively with all key stakeholders and we are particularly pleased that the timing of publication falls within the consultation period of FCA's Discussion Paper 17/1 "Illiquid Assets and Open-Ended Funds" such that much of the content will be pertinent to our, and other's responses.

Our initial view of the FCA Discussion Paper is that it is a constructive approach aimed, like this report, at attempting to identify improvements and we were particularly pleased to note the comment in 4.5 that "…we do not intend to ban open-ended funds holding illiquid assets or prevent retail investors from acquiring units in open-ended property funds. We do not believe such changes would advance our financial stability or consumer protection objectives…".

We believe that is absolutely the right approach because, stripping away all the noise around what has, after all, been a once in a generation event, we must as an industry focus on what is in the best interests of the investors and access to real estate is as important as ever. Whilst usually labelled an "alternative" it has been a core asset class for long term savings and protection products for over 150 years in the UK for good reason. It is a real asset, produces relatively high income returns with real income growth, has relatively low price volatility and low correlation with equities and bonds.

Open-ended funds allow smaller investors, who by definition cannot invest in real estate directly, to experience returns directly linked to the underlying assets, and have been available to retail investors in various structures for around 40 years, over most of that long time-frame generally delivering returns without major issues.

Nevertheless tensions do arise from time to time by managing less-liquid assets in open-ended funds and in the period following the Referendum, in the face of higher than normal redemption requests, a number of funds used the mechanisms built into them within the COLL regulations in order to protect investors' interests. With the benefit of hindsight it is legitimate to ask why it was that abnormally high redemption levels were experienced when we now know that, whilst there was a period of uncertainty about pricing in the underlying market, it was relatively brief and the overall impact has proven to be modest, and as the FCA paper points out those redemptions were largely focussed on a handful of larger funds.

I hope that you will find the report interesting, informative and useful. If you are involved in the industry in any way we welcome your feedback on the issues discussed which can be emailed to us at info@aref.org.uk. AREF is committed to ensuring that all investors can continue to enjoy the benefits of real estate investment in transparent vehicles that suit their individual needs and the feedback will support us in doing that.

John Cartwright
Chief Executive Officer
The Association of Real Estate Funds
April 2017

# Executive summary

This report is an independent review of fund behaviour following the European Union Referendum vote in the United Kingdom on 23rd June 2016. It looks at what actions fund managers took, why they did so and what limitations restrict different behaviour. As it was primarily an issue of meeting liquidity requirements in open-ended funds, there is a particular focus on this.

Many market commentators compared the impact on property funds in the month following the referendum result with the events during the financial crisis in 2008. In fact, there are many important differences. The impact in 2008 was much broader, with major issues for all types of listed and unlisted vehicles as well as a much broader real estate impact. From the peak of the market to the trough following the global financial crisis, real estate capital values in the United Kingdom fell by something approaching 50%, according to the IPD All Property Index. In 2016, the problem was largely one of liquidity in open-ended, authorised funds for retail investors (specifically Non UCITS Retail Schemes (NURS), the significance of which is discussed later in this report). In the previous crisis, none of the onshore retail funds investing in UK property was forced to suspend trading in its units. Following the referendum result, a number of NURS retail funds suspended trading in their units.

Following the 2008 crisis, the lessons learnt resulted in significant changes to the liquidity and operation of many real estate funds for institutional investors. Many institutional investors in funds have been prepared to sacrifice liquidity in order to reduce volatility and to increase returns. This has not been possible in funds for retail investors, for reasons that are discussed further below. Although many funds for institutional investors had made changes, this is far from universal. Some funds cannot be changed and in other cases, the managers have chosen not to. Those changes that have been made were arguably largely untested following the referendum vote as most funds for institutional investors did not face significant redemptions.

The structure of retail investment in the UK has changed fundamentally since 2008. The Retail Distribution Review (RDR) was a major overhaul of financial services legislation for retail investment advice and came into effect on 1st January 2013. The changes introduced under RDR coupled with technological change has accelerated the speed of execution of changes in investment by retail investors. Intermediaries can change allocations to real estate across all investors at the press of a button. This has the capacity to significantly increase the risk of a “run on the bank” for open-ended funds. There has been very significant growth in investment through model portfolios and this appears to be accelerating. One major intermediary saw funds in model portfolios double from £600 million to £1.2 billion in 2016. The growth in investment via model portfolios since RDR increases the risk of a herd mentality. Although there are huge numbers of different model portfolios, they are constructed from the same building blocks increasing the risk of collective behaviour. The number of independent financial advisers has reduced since RDR, increasing the risk of concentration. However, it should be noted that although this risk of herd mentality amongst retail investors exists, in practice after the EU referendum result, the volatility was largely attributable to a small number if discretionary fund managers (DFMs) making large redemptions.

Although the risks of both a “run on the bank” and “herd mentality” are increased by the changes to the retail investment model, based on the work that we have undertaken for this report, the majority of capital invested through model portfolios was not volatile in practice. In this respect, there are many analogies to defined contribution pension schemes and unit linked insurance products. The operation of the platforms through which much of this investment passes provides for daily pricing and daily trading and is not currently able to accommodate funds which do not provide daily liquidity.

Most retail funds had seen a decline in net inflows of capital turning to net outflows during the first half of 2016 as intermediaries felt that the market was reaching its peak and reduced allocations to real estate as an asset class. The unexpected result of the referendum caused a significant volume of redemptions on the morning of 24th June, abating significantly immediately thereafter before rising again at the end of the month. This was not universal. Two funds did not see a change on 24th and others did not see a change later in the month. Some funds were better placed than others to deal with the liquidity challenges faced.

The challenges were compounded by the timing of the vote so close to the end of June. This meant that it also created significant uncertainty for the month end, quarter end and half year. The impact was therefore extended beyond daily traded funds. It also had an impact on quarterly and monthly allocation decisions by DFMs.

Many retail funds saw significant redemptions on 30th June or 1st July. These were often major changes by a very small number of discretionary investors. In some cases the retail fund saw redemptions on 30th June or 1st July higher than that on the day after the vote. Following the first fund suspension on 4th July, other funds faced significantly increased outflows for others and a domino effect with further suspensions. Within the constraints of the current regulatory and operational framework for funds for retail investors, managers did what they could to deal with the challenges. Generally the reaction of intermediaries interviewed in the preparation of this report has been broadly positive - they felt that managers did what needed to be done. This is not universally the case and there were strongly held views amongst a minority of investors that managers had behaved inappropriately. This applied to both suspension and pricing adjustments, and there was not a consistency of view.

Two important reports were published after the interview phase of the production of this report had been completed:

- On 12th January 2017, the G20 countries' Financial Stability Board (FSB) published its report, "Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities" (http://www.fsb.org/wp-content/uploads/FSB-Policy-Recommendations-on-Asset-Management-Structural-Vulnerabilities.pdf). A key area addressed was the possible liquidity mismatch between fund investment assets and redemption terms and conditions for fund units.

- On 8th February 2017, the FCA published a discussion paper, "Illiquid assets and open-ended investment funds: DP17/1" (https://www.fca.org.uk/publications/discussion-papers/illiquid-assets-open-ended-investment-funds).

The first of these sets out general proposals for an international framework, but in the long term would potentially be far reaching depending upon how it is implemented, not only for real estate but for illiquid assets more broadly. The discussions later in this report on enabling the development of a broader choice of products for retail investment in real estate become more important if regulation moves in the direction advocated by the FSB. The FCA paper is less dramatic in its conclusions and it is to be welcomed that it recognises that these are complex issues and that any changes would need to be implemented over time and through active consultation with the real estate investment management industry.

Our key findings are:

- Although there are specific areas where managers did not handle matters as efficiently as they could have done, the approaches adopted by managers limited the impact of events and we believe managers sought to treat investors fairly. Although the challenge in terms of the volume of redemptions to meet was more acute than in 2008, managers acted more decisively and investors were better protected.

- Broadly, those managers facing redemption demands exceeding their available liquidity had a choice as to whether to adjust pricing to reflect the need to potentially make very rapid sales of assets at heavily discounted prices to meet redemptions or to suspend trading in units. Views of intermediaries and managers as to the appropriate course of action varied. On balance, more of the intermediaries interviewed favoured the former provided that the price at which redemptions were made fully reflected the consequences and prevented dilution of remaining investors.

- However, because intermediaries did not know which route managers would, or indeed could, follow, many found themselves in funds that did not do what the investor would have preferred. We have suggested greater clarity by managers not only of what they are permitted to do in given circumstances but also what they propose to do in such circumstances. This is discussed in more detail later in this report;

- Although as mentioned above there was some preference for a pricing model that reflected forced sales for exiting investors, the overwhelming majority of IFAs surveyed by AREF in early 2017 preferred fund suspension to a general sale of assets at distressed prices in order to meet daily liquidity demands.

- Some managers who did suspend funds were strongly of the view that more widespread forced sales of assets by open-ended funds would have turned a fund liquidity issue into a full blown property crash. We note the view and are sure that this will provide an opportunity for many hours of future debate beyond that which took place in the consultation phase of this report. We are not in a position to give a view. It is also important to note that dilution pricing based on assumed potential forced sales does not necessarily mean that those sales occur. Pricing that fully reflects the cost of redeeming should be a factor that discourages first mover advantage redemption. As mentioned above, there is an overwhelming preference for fund suspension to a general sale of assets at distressed prices.

- It is important that investors and commentators understand the difference between market value adjustments made to the underlying portfolio and thus to the net asset value and dilution adjustments made to the redemption price for redeeming investors to reflect the forced sale of assets below ongoing book value.

- There is a lack of clarity, consensus and regulatory certainty as to the approach to valuation of assets in periods of volatility. Confidence in the valuation of underlying assets is fundamental to open-ended funds. We have suggested a review of this as a joint exercise including at a minimum AREF, the RICS, the FCA and DATA (the Depositary and Trustee Association). This is discussed in detail on pages 22 to 27; Other organisations, such as the Investment Association and the Investment Property Forum may also have relevant views.

- There are significant areas where we believe that the regulation governing retail investment in real estate funds should be reviewed. We believe this should be across a number of related areas rather than a piecemeal review of individual regulations. This is discussed in detail in the report.

- The current regulatory framework, the operational limitations of the platforms and the comfort blanket of daily liquidity has inhibited the development of funds for retail investors with different characteristics.
- The structural issues in dealing with retail investors' model portfolios mirrors the challenges of investment in illiquid assets by defined contribution pension schemes and unit inked insurance products. Many investors are effectively paying a high cost for liquidity that they do not use, subsidising those investors who do need liquidity.

- The two most significant <u>potential</u> costs of liquidity are:

    - The erosion of returns by holding cash balances to meet redemptions;

    - Some investment assets being selected on the basis of perceived ability to sell them quickly rather than anticipated investment performance.

- Although the redemption challenges were largely restricted to funds with retail investors, based on the interviews conducted, the large jumps in redemptions on the morning of the referendum result and at the end of the month a week later were largely attributed to large redemption requests from a small number of large discretionary fund managers. Unlike in 2008, this was largely restricted to authorised retail funds. Daily traded pooled vehicles with defined contribution pension schemes and unit linked insurance products generally did not see the same issues. This does not mean that there will be challenges in other products in the future;

- In determining the direction of potential structural change, one of the points outlined in the 2012 Report for AREF, "Unlisted funds - lessons from the crisis" is important - the trade off between between homogeneity and diversity in funds. This is particularly important for products designed for retail investors. Regulatory changes in the EU for fund products marketed to retail investors have been very much in the direction of the former. It would seem to us that there are compelling arguments for this not being the best approach for real estate as an asset class. Real estate is a complex, illiquid asset and there will inevitably be significant differences in approach and structure for different funds.

- It is important that investors understand the differences between funds. It would appear that the overwhelming majority of investment by retail investors into retail real estate funds is via DFMs and IFAs. The fact that the majority of investors are using the expertise of intervening fund managers or financial advisers means that a higher degree of sophistication can be assumed for these investors. This should be a factor in considering the development of a broader range of real estate fund products for retail investors, including those investing through insurance linked products and defined contribution pension schemes.

- Although execution only business is only a small proportion of the total, adequate protection for investors following that route is important. Some intermediaries have already made moves to improve this, for example by requiring electronic sign off of a health warning for investment in real estate funds.

- In terms of providing investors with investment vehicles that do not have some of the potential drawbacks of daily traded retail funds, listed real estate vehicles may be part of the answer but is not "the" answer. Listed vehicles also have drawbacks. A range of measures to permit the development of a broader range of listed and unlisted vehicles with different liquidity characteristics would give retail investors greater choice. An environment that allowed an evolution of a broader range of real estate products would allow investors to sacrifice liquidity to reduce volatility and improve performance if they wish. For those investors who do require daily liquidity, that too would remain available, if the demand remains, through listed or unlisted routes.

- Based on interviews undertaken in the preparation of this report, most intermediaries are currently prepared to sacrifice performance in order to maintain daily liquidity and indeed the current structure of model portfolios relies upon daily liquidity.

- There is considerable interest in the potential role of derivatives in pricing and providing liquidity. This is not covered in any detail in this report, but should be explored further.

- If the development of a broader range of real estate fund products results in discretion and subjective judgment by fund managers on a broader range of matters, many of the governance issues raised in the 2012 report will become increasingly important.

- Although there are undoubtedly flaws in the overall structure for retail investment in real estate, an enormous amount of care is needed in changing this. Introducing regulatory changes that prevent daily trading in retail real estate funds could have a catastrophic effect if investors are forced to redeem their holdings as a consequence. Moreover, there is nothing to suggest that the concept of a daily traded fund is wrong. The issues are in the detail of how the mechanisms currently operate, the lack of clarity for investors as to how different fund managers will behave in particular circumstances and the lack of choice for retail investors who do not want daily liquidity.

- Removing the regulatory and operational obstacles that have prevented the development of a broader range of long-term investment structures, particularly for investors who do not want such high levels of liquidity would permit an evolution of the existing model, in our view a significantly safer route than a rapid intervention triggering a greater shock than occurred after the referendum vote.

Following publication of the consultation version of the report, the feedback received has been incorporated into this final version of the report. This does not, however, represent the end of the discussion. Many of the challenges outlined in this report will require considerable further work.

# Background

**Scope of this report**

John Forbes was appointed to undertake an independent review of the impact of the referendum result on real estate funds and to evaluate whether any improvements could be made to deal with market shocks in the future.

The primary focus of the research was to assess the impact on clients following the referendum, but also to take a view of the whole market including fund distributors, managers, valuers and other service providers. It looks to identify areas where market participants believe there might be aspects of manager or investor behaviour for which 'best practice' might be established by AREF itself or the regulator.

Although this report considers fund behaviour in the aftermath of the EU referendum vote, its focus is very much on the susceptibility of real estate funds to market or liquidity shocks. The considerations are therefore in respect of unexpected events rather than any analysis of the impact of the decision to leave the European Union.

Unlike the 2008 crisis, the issues in the aftermath of the EU referendum vote were largely restricted to the open-ended real estate funds for retail investors. This report has therefore largely focussed on these funds.

All those who have contributed to this report by being interviewed, have done so on the basis that their comments are not attributable. As it has never been the intention to name individual funds or managers, other than to the extent that information is in the public domain, some of the comments regarding individual fund behaviours may appear somewhat cryptic. The purpose of the report is to draw broad conclusions regarding behaviour and to identify areas for improvement rather than to pillory individual fund managers.

Although there appears to have been a popular perception within some parts of the real estate industry and the press that the 2016 events were a rerun of the 2008 crisis, this is not the case. This is discussed below and comprehensively throughout the report. We believe that this is hugely important as we otherwise run the risk of jumping to an erroneous conclusion at the outset and attempt to prevent a future crisis by seeking to solve the wrong problems.

**The 2012 report**

John Forbes, then a partner at PwC, was the author of the 2012 report for AREF, "Unlisted funds - Lessons from the crisis." This looked at fund manager behaviour in the period 2002 to 2012, looking at how fund manager behaviour in both the boom period from 2002 to 2007 and the subsequent crisis contributed to or alleviated the problems faced. Although the 2016 report is narrower in its focus than the 2012 report, for reasons discussed further below, many of the lessons from the 2012 report remain highly relevant. In particular:

- In trying to create vehicles to provide liquidity in an inherently illiquid underlying asset class, there is a trade-off between liquidity, volatility, performance and risk. Many investors are paying for liquidity they do not really need;

- There is a fundamental issue for open-ended funds in preserving fairness between investors in a fund and those wishing to leave or join. A combination of factors contributed to a sense of unfairness among some investors in the aftermath of the 2008 crisis and remain a familiar theme among some of those interviewed in the preparation of this current report, in particular:

    - The mechanisms used, particularly bid-offer spread, are complicated and may not have been fully understood by investors. The lack of understanding is not helped by the fact that some of the terms used are not clearly defined or are defined in a different way when applied to other asset classes.

    - There was a perceived lack of clarity as to how fund managers took decisions, resulting in a concern among investors that arbitrary changes were being made;

- In common with terms of engagement for most fund managers for all asset classes, fee arrangements for open-funded property funds reward the fund manager for maximising Assets Under Management. The manager has a vested interest in maximising inflows and minimising outflows. This perceived conflict of interest added to the concerns of investors. It is also worth noting that fees are charged on total AUM including uninvested cash.

- Concerns over the basis of valuation underpinning the value at which investors subscribe for units or redeem.

Many funds for institutional investors introduced changes since 2008 to address these issues. This is discussed further below. Regulatory, operational and market constraints have prevented funds for retail investors from doing the same. This is discussed in detail in the rest of this report.

**Changes in institutional real estate funds**

In responding to the lessons learnt from the 2008 crisis, many fund managers undertook a modernisation of the fund terms for their funds for institutional investors. A key element of this was the recognition that institutional investors were often paying a high cost for liquidity that they did not want or need. Significant steps were taken to reduce the level of liquidity in some open-ended funds for institutional investors, for example by lengthening the period between redemption notices being given and the redeeming investor being payed out or by introducing "gating" mechanisms that restrict the amount that can be redeemed in a particular period. Funds with these characteristics are not currently available to retail investors. The reasons for this are explored later in this report. Although funds for institutional investors faced fewer problems than those for retail investors, the changes introduced since the 2008 crisis were largely untested in practice. Pooled pension products with daily pricing and trading generally also saw significantly lower redemptions than those for retail funds.

Managers of funds with institutional investors should not be complacent and need to continue the progress that has been made since 2008.

Long term changes to the structure of retirement provision in the United Kingdom are also important. A later section of this report draws parallels between the retail investors, unit linked insurance products and defined contribution pension schemes. All of these are increasing in importance whilst some of the traditional sources of institutional investment capital in real estate funds, defined benefit pension schemes and traditional insurance funds are in long-term decline. As discussed later in this report, this increases the importance of building a viable model for the new sources of capital to invest efficiently in illiquid assets including real estate.

**Funds for retail investors**

As has been mentioned already, the issues in the aftermath of the EU referendum vote were largely restricted to the open-ended real estate funds for retail investors. These are onshore, UK authorised real estate funds in the form of Non UCITS Retail Schemes (NURS). The regulatory framework for these funds and the implications of this in understanding their behaviour in the aftermath of the referendum vote are discussed later in this report. At the time of the 2008 crisis there were also unauthorised offshore funds that were marketed to UK retail investors, some of which faced significant problems. Regulatory changes that came into effect on 1st January 2014 restricting the promotion of NPMIs to retail investors mean that such funds can no longer be marketed to UK retail investors. Most of the open-ended retail funds have converted to Property Authorised Investment Funds (PAIFs) since the previous crisis. This is considered less significant in terms of fund behaviour but is none the less covered later in this report.

The broader structure of retail investment has changed very significantly since the previous crisis. The Retail Distribution Review (RDR) was a fundamental overhaul of financial services legislation for retail investment advice and came into effect on 1st January 2013. The RDR removed commissions from product providers for independent financial advisers (IFAs), who are now required to be remunerated through fees paid by the investor. The requirements to be met for the adviser to be regarded as independent have also been broadened. The consequences of this have been very significant with IFAs now concentrating on constructing investment portfolios rather than recommending individual products, as well as an overall reduction in the number of IFAs.

The structure of retail investment in real estate as an asset class as a result of this is discussed in more detail in the next section of this report.

**The events before and after the EU referendum vote**

This report does not consider the political implications of the referendum vote, but we set out below a chronology of events and the impact that this had on the open-ended real estate funds sector.

Prior to the 2015 General Election, the Conservative Party had committed to hold an "In Out" referendum on EU membership by the 31st December 2017. The Conservatives won an outright majority in the election in May 2015 and the planned referendum was included in the Queen's Speech at the end of May 2015. The date of the referendum of 23rd June 2016 was confirmed in February 2016.

During the first quarter of 2016, some open-ended retail funds were still experiencing net inflows and were operating on "offer" pricing whereas others had already moved to net outflows. For most, inflows abated significantly in the second quarter prior to the referendum vote. During May 2016, the majority of open-ended retail real estate funds who were not already on "bid" pricing switched their pricing from "offer" to "bid". The operation of dual pricing and the behaviour of investors and intermediaries when the pricing switches from one to another are discussed in more detail later in this report.

In the run up to the referendum most managers of daily traded funds, particularly those with retail investors had been building up their cash holdings in anticipation of a need for increased liquidity. Many funds had also been holding shares in listed Real Estate Investment Trusts (REITs) as part of their liquidity. Based on the comments in interviews, in most cases, these shares had been sold prior to the referendum, protecting investors in the funds from the impact of rapidly falling REIT share prices in the immediate aftermath of the vote. Those funds that were still holding shares and had to sell them to meet liquidity requirements did so at a price significantly lower than was available prior to the vote. Where REIT shares were held on the 24th, they appear to have been sold after the month end rather than on the 24th.

The extent to which the various fund managers had prepared for an "Out" result in the referendum is discussed elsewhere in this report. It is important to note, however, that the various firms providing third party valuations of the underlying property for the open-ended retail funds had informed them prior to the vote that in the event of a decision to leave, they would be caveating their valuation opinions for uncertainty. The proposed wording of the uncertainty clause had been provided to the managers and a meeting had been organised by AREF on 23rd May between most of the managers of retail funds and three of the leading valuation firms. The consequences of the valuation uncertainty clause and other valuation related matters are discussed elsewhere in this report.

The referendum vote occurred on 23rd June 2016, with the result being known prior to the start of trading on 24th June. The financial markets opened on the 24$^{th}$ to general turmoil. On the day of the vote both Sterling and the FTSE 100 had risen to 2016 highs. After the result became clear, Sterling fell to from \$1.50 to \$1.38 its lowest level since 1985, falling again the following Monday to a new low of \$1.32. The FTSE 100 also opened very substantially lower, although it recovered during the day and subsequently. Shares in companies with a predominantly UK source of income, including the various Real Estate Investment Trusts (REITS) were particularly hard hit and did not enjoy the same level of subsequent recovery. By midday on the 24th June, the prices of the UK's largest four REITs were down between 12% and 20%. Some of the smaller REITs had fared even worse.

Most of the UK daily dealing open-ended retail property funds faced significant levels of redemptions on 24th June prior to the midday dealing point on 24th. Henderson adjusted the pricing at which investors could redeem units in its retail fund by making an adjustment to asset value from immediately after the midday valuation point on 24th. This was applied to redemptions submitted in the previous 24 hours so that all investors who submitted redemption notices after the referendum result was known were subject to the adjustment. Other funds introduced valuation and pricing adjustments over subsequent days. This is set out in the timeline on the following page The methodology varied from manager to manager and in some cases changed over time to reflect changing circumstances. This is discussed in detail in the section on Net Asset Value and redemption price calculation later in this report. On 4th July 2016, Standard Life Investments announced that it was suspending the trading of units in its retail fund with effect from immediately after the midday valuation point.

Over subsequent days, a number of other retail funds suspended trading in units. This is also set out in the timeline at the end of this section of the report..

Columbia Threadneedle Investments announced on 12 September 2016 that it would reopen its retail fund for trading on 26th September 2016. In the subsequent weeks other managers announced that their funds would also reopen for trading, Aviva Investors being the last to do so.

Detailed commentary on the suspension and reopening of funds is set out in a separate section of this report.

A timeline events is set out on the following page..

**Key differences to the 2008 crisis**

There are several important differences with the 2008 crisis:

- The post referendum events did not result in anything like the fall in underlying property values. There was a drop of slightly under 5% in the quarter following the referendum, followed by a rapid recovery. This is in major contrast to the global financial crisis that saw a peak to trough fall in UK commercial real estate values of close to 50%. The 2016 events a short term liquidity crunch in limited group of open-ended funds;

- The open-ended funds that faced serious liquidity challenges after the referendum vote did not have significant borrowings (and are not permitted to) which limited the knock-on effect outside the funds affected.

- Within the open-ended retail funds affected, the liquidity pressures were significantly more concentrated that in the 2008 crisis. A build up of redemption pressure over several weeks in 2008 occurred in a week and a half in 2016.

- Although some commentators at the time suggested that the retail fund suspensions were a repetition of the events of 2008, in fact the suspension of trading in retail funds was highly unusual in 2008. Only one UK authorised fund for retail investors, managed by Newstar, suspended trading in the previous crisis. This fund did not invest in UK property and was subsequently wound up. As has already been mentioned, at the time of the 2008 crisis there were also unauthorised offshore funds that were marketed to UK retail investors, some of which faced significant problems. Regulatory changes mean that such funds can no longer be marketed to UK retail investors.

- Although daily traded, authorised funds did not, with the exception of Newstar, suspend in 2008, a number of funds for institutional funds and other unauthorised funds did suspend. Changes in institutional funds in the aftermath of the 2008 crisis are discussed briefly on page 9 of this report.

# Timeline

This only shows actions of authorised retail funds

| 24/6 | 25/6 | 26/6 | 27/6 | 28/6 | 29/6 | 30/6 | 1/7 | 2/7 | 3/7 | 4/7 | 5/7 | 6/7 | 7/7 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Vote result known<br><br>Henderson introduce fair market value adjustment from 12.01 | weekend | weekend | Standard Life introduce fair market value adjustment from 12.01 | Legal & General introduce fair market value adjustment with effect from 12.01 on 27th<br><br>Kames introduce fair market value adjustment with effect from 12.01 on 28th<br><br>Aberdeen introduce fair market value adjustment with effect from 12.01 on 28th | | | M&G introduce fair market value adjustment from 12.01 | weekend | weekend | Standard Life suspend with effect from 12.01 on 4t | Aviva suspend with effect from 12.01 on 4th<br><br>M&G suspend with effect from 12.01 on 4th | Henderson suspend with effect from 12.01 on 5th<br><br>Columbia Threads suspend with effect from 12.01 on 6th<br><br>BMO introduce fair market value adjustment from 12.01<br><br>Aberdeen increase fair market value adjustment and introduce dilution adjustment with effect from 12.01 on 6th. Temporary suspensio n with effect from 12.01 on 5th | egal & General introduce further fair market value adjustment with effect from 12.01 on 6th<br><br>Kames introduce further fair market value adjustment with effect from 12.01 on 7th |

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# The structure of retail investment

### The Retail Distribution Review

As discussed in the background to this report, the structure of retail investment advice has changed very significantly since the previous crisis. The Retail Distribution Review (RDR) was a fundamental overhaul of financial services legislation for retail investment advice and came into effect on 1st January 2013. The RDR removed payment of commissions from product providers to independent advisers, who are now required to be remunerated through fees paid to them by the investor, typically on an hourly rate. The requirements to be met for the adviser to be regarded as independent have also been broadened.  This has resulted in a significant change in the way that many Independent Financial Advisers (IFAs) conduct their business. The previous focus on recommending individual investment products has shifted significantly to a model where IFAs provide a broader financial planning service through a variety of pre-determined investment portfolios. Traditional advisory only services are often provided alongside, but the growth has been in the model portfolios. This growth appears to be accelerating. For example, one of the larger intermediaries, Brewin Dolphin saw 100% growth in model portfolios in the year to 31st December 2016 with 33% growth in the final quarter.

The number of IFAs has reduced since RDR, increasing concentration.

### Technology change

The development of online investment platforms has modernised the way in which investments in funds are processed. Portfolios of investments in different funds are managed through the platforms. A key development was the development of architecture to allow model portfolios to be run directly on the platforms. Although this started before the RDR, it has really developed much more significantly since then with the huge growth in investment through model portfolios. It is now extremely easy for intermediaries to:

- Run model portfolios directly on the investment platforms;

- Move investments between funds on a daily basis;

- Change allocations to asset classes across model portfolios instantly with this being implemented directly across the various individual accounts using these model portfolios;

- Adjust investments to rebalance portfolios following movements to asset values.

This has had three major effects:

- The platforms have become enormously important in the flow of investment into funds. Structural and operational constraints arising from platforms become increasingly significant;

- The ability of intermediaries to be able to change investments across who portfolios instantly has the possibility to create greatly increased volatility. In 2008 retail investors in funds tended to be more “sticky” and move over weeks rather than immediately. The platform technology has the capacity to make it much more volatile, although as discussed later in this section, this has been more limited in practice.

- Engagement between the property fund manager and the ultimate investor has become harder.

### What has happened in practice?

Intermediaries will provide a range of model portfolios based upon the investor’s appetite for risk. For example an IFA may offer a number of gradations of risk based on three broad portfolio models, “defensive”, “balanced” and “aggressive”. The precise terminology and number of gradations varies from intermediary to intermediary. Further permutations are added through different time horizons and the level of income required so that each IFA may be offering a large number of different model portfolios. These portfolio models may be constructed in-house, bought as a service by the IFAs from larger wealth managers or bought as a service from specialist providers of asset allocation models who do not provide other investment services.

Each model will typically have a range of potential allocations and a current weighting to real estate as an asset class. This weighting can vary significantly depending upon the model portfolio. For example, for one wealth manager the maximum allocation to real estate as an asset class varied from 0% to 30% depending on the portfolio with the actual allocation varying from 0% to 15%. Changes in allocations may have a significant impact on the amount invested in underlying funds.

Smaller IFAs tend to invest via discretionary fund managers (DFMs), whereas some of the larger IFAs will deal directly with the platforms. Some of the IFAs use outsourced paraplanners who deal with the administration of the investment process with the platforms for multiple IFAs,

One of the platforms has provided us with a breakdown of investors through the platform. Two thirds are via model portfolios, split roughly equally between advised and discretionary clients.

The platforms also provide for the portfolios through different individual wrappers such as Individual Savings Accounts (ISAs) and Self-Invested Personal Pension (SIPPs). ISAs appear to be particularly important for some funds and are discussed in more detail later in this section of the report.

Although some of the intermediaries interviewed during the research for this report were of the view that the changes to the retail distribution model will increase the volatility of retail investors this appears to be far from clear. Some parts of the model may be more volatile, but in most cases the capital coming through portfolio allocation models is relatively stable.

- The allocation within model portfolios will be adjusted to reflect the changing views of the market. Some intermediaries take a more active approach to adjusting their allocations than others. For example, one intermediary interviewed had made no changes to its allocation to real estate as an asset class over the whole of 2016 whilst another halved its allocation after the referendum vote. Overall, very substantial changes in allocations as a percentage appear rare. However, it should be noted that many intermediaries commented that they had reduced their allocation to real estate during the first half of 2016, taking the view that they had moved overweight to real estate as an asset class in 2015 as the market performed strongly.

- Allocations to particular asset classes as a percentage will move out of alignment with the designated percentage in individual portfolios as the values of underlying investments rise and fall. Investors therefore need to rebalance their portfolios periodically to bring them back into line with the model portfolio. The model portfolio allows this to be done across the whole portfolio although intermediaries can intervene and do this on a piecemeal basis. Based on the evidence from the interviews, quarterly rebalancing appears to preferred.

- As has been noted elsewhere in this report, the timing of the vote one week from the end of June meant that many monthly, quarterly or half yearly reviews occurred shortly after the vote, This appears to have had the effect of concentrating market driven decisions that would otherwise have taken place over the second half of 2016. For example, one retail fund manager saw a very substantial redemption on 1st July driven by an asset reallocation by a major discretionary investor. The flow of redemptions between 24th June and 5th July varied from manager to manager whilst most managers saw very major increases in redemptions on the 24th June immediately after the vote and on 5th July after the Standard Life Investments suspension.

- Asset allocation changes can be very material at the fund level. A change in the allocation to real estate of a model portfolio of 10% to 8% is a 20% reduction. This equates approximately to the average liquidity position of the retail funds immediately prior to the vote. This is manageable if allocations are adjusted by investors at different points but may become unsustainable if they are concentrated by a major trigger event.

- All of the intermediaries interviewed took the view that allocations to asset classes within model portfolios represent a view over an appropriate investment horizon of the construction of the portfolio, rather than something to be adjusted tactically on a day to day basis. The need to reflect any change in long term allocation immediately is driven by operational considerations rather than investment ones.

*An example*

The relationships between the various intermediaries can make understating the flow of funds difficult to follow. The following is an example. A number of smaller IFAs used the services of a larger intermediary. This intermediary provided an advisory service and a wide range of model portfolios.

For the advisory clients they provided a list of direct property funds, which comprised two large open-ended funds, a smaller open-ended fund and a ground rent fund. The model portfolios had no direct exposure to direct property funds, but invested through a large fund of funds or a real estate securities fund, depending upon the model portfolio. The intermediary significantly reduced its underlying allocation to property following the referendum, but this was less significant than the fact that the fund of funds through which it was investing had redeemed all its positions in UK open-ended funds on the day of the referendum result switching the money into non UK real estate securities.

This is cited as an example. Intermediaries had different models for dealing with advisory clients and model portfolios, often through investment platforms making it even harder for the underlying fund managers to know whether they were dealing with advisory or model derived inflows and outflows.

*Two rather different models*

During the interview process for this report, we identified two investment models that are unusual and in different ways managed to avoid the volatility associated with daily priced open-ended funds:

- The first is a wealth manager that operates its own funds with outsourced investment managers. This includes an open-ended, daily traded fund for retail investors. There are two entry points to the fund, a life insurance product and a unit trust which is a Non UCITS Retail Scheme (NURS). Capital is raised via the wealth manager's own representatives. Much of this is via model portfolios, the allocation to real estate within which remains stable over time. The result of this is that cash flows into the fund tend to be stable and the manager did not experience redemptions following the referendum result. Whilst this model appears to have eliminated volatility, it is result of the unique business model of the wealth manager and would not therefore appear to be route that could be replicated by others.

- The second is a large manager providing multi-asset fund of funds. Its real estate allocation is via a more institutional style fund in which two of its multi asset funds are the only investors. The underlying fund deals quarterly. The multi-asset funds investing deal daily, but the real estate allocation is a small proportion of the total and the investor takes the view that it can manage liquidity at its level through its investments in other asset classes. This results in the percentage allocation to real estate as an asset class varying as the overall size of the investing funds change, but the manager takes the view that real estate is a relatively small proportion of the total and there is no compelling reason why it needs to be an absolutely rigid percentage. The manager of the investing funds allocates absolute rather than parentage amounts to real estate when it regards it as a good point in the cycle to be investing in real estate. The broader relevance of this model is discussed on page 33 of this report.

**Insurance linked products**

Insurance companies provide investment products to individuals that invest in real estate. This can be in open-ended retail funds or it can be in direct property. In practice, the latter is effected through a property fund run by the insurer that has some but not all of the characteristics of a fund marketed directly to retail investors. The regulatory provisions that apply are set in out on page 20 in the section on the regulatory framework.

Although the unit linked funds investing in real estate managed by fund managers owned by the insurers are daily traded, they did not suffer from the same redemption issues that were experienced by the retail funds.

**Individual Savings Accounts (ISAs)**

These are individual savings products for UK resident individuals and are widely used as a wrapper for model portfolio investment. The individual limit that can be invested in ISAs is, at the time of writing this report, £15,240.

This can all be in a single ISA or into one of each of the three types of ISA:

- cash ISA
- stocks and shares ISA
- innovative finance ISA

A stocks and shares ISA can invest in funds so this is the form of ISA through which investments in retail property funds are held. The regulatory framework for these is discussed in more detail on page 20.

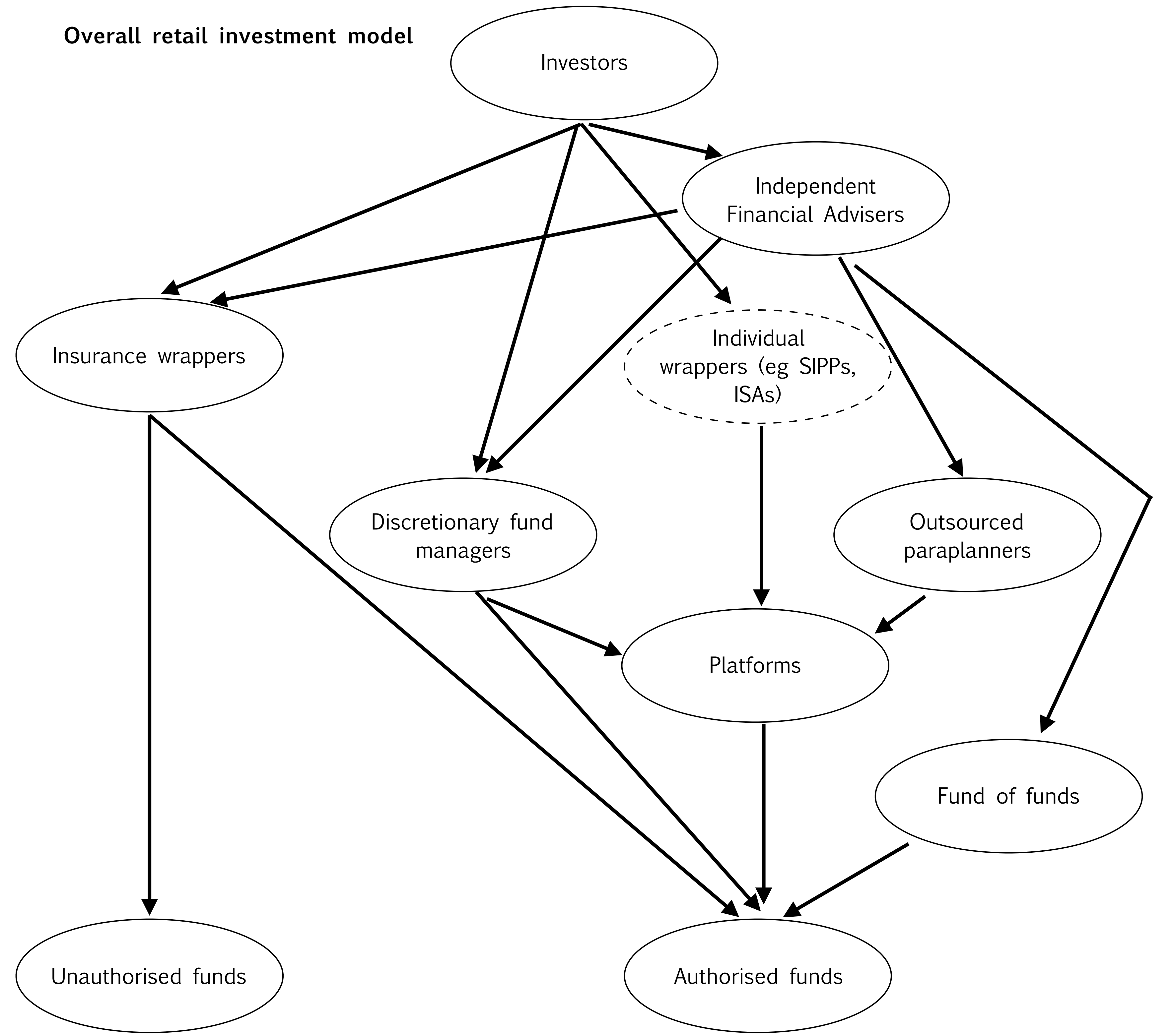
**Overall retail investment model**

We set out our understanding of the overall retail investment model as described in this section of the report on the right.

**What is the significance of the changes to retail distribution and what does the real estate industry need to do?**

The changes introduced under RDR coupled with technological change has accelerated the speed of execution of changes in investment by retail investors. Intermediaries can change allocations to real estate across all investors at the press of a button. This has the capacity to significantly increase the risk of a "run on the bank" for open-ended funds.

**Overall retail investment model**



The growth in investment via model portfolios increases the risk of a herd mentality. Although there are huge numbers of different model portfolios, they are constructed from the same building blocks increasing the risk of collective behaviour.

Although these risks are present, based on the work that we have undertaken for this report, the majority of capital invested through model portfolios was not volatile in practice.

A relatively small proportion of discretionary fund managers took advantage of the liquidity of daily traded funds to make significant changes to their holdings. The majority of retail investors are therefore paying for liquidity that they do not use. Unfortunately the operating structure of model portfolios requires reallocations between asset classes to be effected across all asset classes at a single trading point. This locks investors into daily liquidity even though it is not aligned with a long term investment in an illiquid underlying asset. This is discussed in more detail on page 33 of this report.

In the 2012 Report, we recommended that AREF take a greater role, working with other organisations, in the education of IFAs to improve their understanding of open-ended real estate funds. We think that this remains an important matter for concern, and we believe that progress has been disappointing. Based upon the interviews conducted, the level of understanding of intermediaries of some of the intricacies of open-ended funds was variable. We would recommend that further steps are taken to improve the understanding of IFAs. This is discussed further on page 37 in the section on communication.

# Regulatory framework

This section of the report looks at the regulatory framework for UK open-ended real estate funds and related investment products. We consider this in some detail as we believe that there are material potential issues and we recommend a comprehensive review of the regulation in this area. The regulatory framework for the relevant products is set out by domestic requirements of the FCA Handbook and the requirements of the European Union Alternative Investment Fund Managers Directive (AIFMD). These are discussed below.

**FCA Handbook**

The key regulatory provisions governing UK authorised funds are set out in the Collective Investment Schemes specialist sourcebook (COLL) of the FCA Handbook.

The broad regulatory treatment of authorised real estate funds capable of being marketed to individuals is separate from their legal form, although the legal form also has regulatory implications under COLL.

A fund that can be marketed to individuals may be an Undertaking for Collective Investment in Transferable Securities (UCITS), a Non UCITS Retail Scheme (NURS) or a Qualified Investor Scheme (QIS). Investment in immovable property is not a qualifying asset for a UCITS scheme so direct property funds do not qualify as UCITS. The manager of one fund that invests only in shares in property companies, property derivatives and other qualifying investments and thus is a UCITS was interviewed as part of this review. This fund does not represent a material element of the property fund market. QIS funds are intended only for professional clients and for retail clients who are sophisticated investors. The regulations for a QIS are set out in COLL chapter 8. Because of the restrictions as to the investors in a QIS, authorised funds for retail investors need to be a NURS.

The legal form of an Authorised Fund that is a NURS may be either an Authorised Unit Trust (AUT) or an open-ended investment company (OEIC). The latter is an Investment Company with Variable Capital (ICVC) under the terminology used in COLL.  The majority of open-ended retail real estate funds are now in the form of a Property Authorised Investment Fund (PAIF). This is a tax status rather than a legal form. The PAIF regime was established in 2008. Because of the tax advantages of the PAIF the majority of managers have converted their existing AUTs to PAIFs. Due to practical difficulties, most of these have only taken place in the last two years. A PAIF must have the legal form of an OEIC, thus an ICVC for the purposes of COLL.

Specific requirements of the tax regime for PAIFs coupled with practical difficulties for investment platforms dealing with the tax reporting requirements mean that a large proportion of retail investors who would benefit from investing directly in practice invest in the PAIFs via feeder vehicles rather than directly into the PAIF. Although the issues in respect of tax reporting are outside the scope of this report, this area should be followed up in broader discussions on changes to the platforms.

The provisions in COLL are potentially key in determining fund managers' powers and duties in two areas that were key in responding to the 2016 redemption challenges:

a) Valuation of the underlying assets and pricing of the units. This is dealt with under COLL 6, with additional rules for the valuation of immovable property held by a NURS under COLL5.6.18 to COLL5.6.20. COLL 6 deals with other important operational matters as well. The broader findings of this report in respect of valuation and pricing are dealt with on page 21.

b) The ability of the manager to suspend trading in the units of the fund. This is dealt with under COLL 7. The broader findings of this report in respect of fund suspension are dealt with on page 27.

It is also important to note that there are three separate sets of provisions that deal with trading in units not occurring daily. These are *limitation*, *deferral* and *suspension.* These are discussed in the following paragraphs.

*Limited redemption*

These provisions are in COLL 6.2.19 and deal with a fund whose usual dealing provisions are not daily. Dealing in units may be at up to six month intervals. The text of the provisions is below:

*(1) The instrument constituting the fund and the prospectus of a non-UCITS retail scheme operating as a FAIF, or that invests substantially in immovables or whose investment objective is to provide a specified level of return, may provide for limited redemption arrangements appropriate to its aims and objectives.*

*(2) Where (1) applies, the scheme must provide for sales and redemptions at least once in every six months.*

*(3) Within a scheme, unit classes may operate different arrangements for sales and redemptions of units provided there is no prejudice to the interests of any Unit holder.*

*(4) The scheme may provide for sales of units of any class to be executed at a greater frequency than redemptions of units of the same class.*

In (1) above, a FAIF is a fund of alternative investment funds.

Although at least one fund has attempted to create a share class with dealing that is less than daily we understand that there has been no take up of this. However, we believe that there is an opportunity for product innovation in this area. This is discussed further in a separate section of this report on page 33.

*Deferral*

These provisions are in COLL 6.2.21. The text of the provisions is below:

*(1) Subject to (1A) and (3) the instrument constituting the fund and the prospectus of an authorised fund which has at least one valuation point on each business day, may permit deferral of redemptions at a valuation point to the next valuation point where the requested redemptions exceed 10%, or some other reasonable proportion disclosed in the prospectus, of the authorised fund's value.*

*(1A) Subject to (3) the instrument constituting the fund and the prospectus of a non-UCITS retail scheme operating as a FAIF may permit deferral of redemptions at a valuation point to a following valuation point where the requested redemptions exceed 10%, or some other reasonable proportion disclosed in the prospectus, of the authorised fund's value.*

*(3) Any deferral of redemptions under (1) or (1A) must be undertaken in accordance with the procedures explained in the prospectus which must ensure:*

*(a) the consistent treatment of all Unit holders who have sought to redeem units at any valuation point at which redemptions are deferred; and*

*(b) that all deals relating to an earlier valuation point are completed before those relating to a later valuation point are considered.*

There are three aspects of this that appear important but not entirely logical:

- Under section (1), the deferral provisions appear only to apply to a fund with daily valuation so exclude any fund that has longer redemption periods under the limited redemption provisions;
- The provisions appear to only allow a deferral to the next valuation point (i.e. one day);
- The more generous provisions in (1A) apply only to fund of funds. This contrasts with the broader provisions for limited redemptions that also applies to funds investing in immovable assets.

Deferral is potentially important as it is one-sided - a fund may defer redemptions but nevertheless remain open for subscriptions. This is discussed further on page 32. This would require consequential changes to allow funds to continue to calculate a subscription price.

*Suspension*

The regulatory framework for suspension of trading in units of authorised funds is set out in COLL 7. The provisions in COLL 7 are very general and deal with the situation where the fund faces exceptional circumstances. Fund suspensions are dealt with in more detail in a separate section of this report.

**AIFMD**

The Alternative Investment Fund Managers Directive (AIFMD) is a European Union Directive that came into effect on 21st July 2011 and was implemented in the UK on 22nd July 2013. The Directive governs managers of Alternative Investment Funds in the EU. This includes the NURS discussed in this report.

AIFMD focuses on regulation of the fund manager rather than the funds. Its implementation in the UK is reflected in the FCA Handbook. AIFMD sets a common framework for funds for institutional investors but allows local domestic regulation for funds for retail investors.

Provisions under AIFMD relating to valuation are dealt with in a separate section of this report.

**Permitted links for long term insurance business**

A number of managers provide investment products which are invested in by individuals through insurance products. The rules determining qualifying investments for long term insurance contracts are set out in the "permitted links" rules in the Conduct Of Business Sourcebook (COBS) of the FCA Handbook. The "permitted links" are set out in COBS 21.3.1. This allows investments in land and property and in "permitted scheme interests". These include the following categories which are relevant for real estate investment:

- an authorised fund, which might, amongst other things, be an ICVC or an AUT;
- A NURS
- An unregulated collective investment scheme that invests only in permitted links, which could include property as indicated above.

Investments in QIS and unauthorised funds are restricted to 20% of linked fund assets.

Based on our interviews for this report, the majority of insurance linked products are daily traded unregulated collective investment schemes investing directly in property. As the collective vehicle is unregulated, there is greater flexibility over the rules than a NURS, in particular over deferral provisions.

The lesser volatility of these products in the aftermath of the vote does not seem to be a result of the regulatory framework, but through the nature of the product offered to IFAs and investors. As discussed on page 14, it might be expected that non-insurance model portfolio investments would exhibit the same characteristics.

In 2012 AREF lobbied for changes to the treatment of indirect investment in land and buildings in response to the FCA consultation on the permitted links rules in anticipation of the introduction of the EU Solvency II Directive. AREF's letter can be found here: http://www.aref.org.uk/sites/default/files/newsletters/AREF%20response%20to%20CP11-23.pdf

**Individual Savings Accounts regulations**

As outlined in the overview of the retail investment market, there are three types of ISA:

- cash ISA
- stocks and shares ISA
- innovative finance ISA

A stocks and shares ISA may invest in real estate retail funds under The Individual Savings Account Regulations 1998 (SI 1998 No. 1870) Section 2.(1) (b) as follows:

"qualifying units in or shares of a non-UCITS retail scheme" means that -

(a) the instrument constituting the scheme secures that redemption of the units or shares in question shall take place no less frequently than bi-monthly (see Rule 6.2.16(6) of COLL omitting the words "Except where (7) applies, and", read with Rule 6.3.4(1), whether or not those Rules apply to the scheme), and

(a) a provision for suspension of dealings in exceptional conditions in accordance with Rule 7.2 of COLL (or any foreign procedure which is a direct foreign equivalent of that Rule) shall not be treated as a provision contrary to paragraph (a) of this definition;

The provisions set out above specifically override the NURS provisions that allow a property fund to have dealing at up to six monthly rather than daily. There would seem to be no logical reason that the regulations for funds for retail investors should have a specific provision for liquidity that is specifically overridden by the provisions for the most obvious retail product through which the investment might be held.

If this restriction was removed, then the ISA would be able to invest in less liquid real estate funds however there is still an issue from the requirement that ISAs should be transferable to another provider at 30 working days for a stocks and shares or an innovative finance ISA. The provisions for the innovative finance ISA which came into effect in April 2016 add to the inconsistency. This allows an ISA to be used for peer to peer lending. Although as with a stocks and shares, the innovative finance ISA should be transferable at 30 working days, the rules recognise that the underlying investment is less liquid and it is thus only any cash in the ISA that has to be transferred and not the underlying investment. There would not appear to be any logical reason why this should not equally apply to property funds operating the limited redemption provisions of COLL 6 described earlier in this section of the report.

**Broad regulatory concerns**

Based on the interviews conducted in preparation for this report, it would appear that the complexity of the regulation is not well understood, and in several critical areas is unclear.

Intermediaries in the investment chain for retail investors appear unclear as to the regulatory limits on the behaviour of fund managers and the distinctions between different forms of fund, different pricing mechanisms etc.

The uncertainty is compounded by the practice of the FCA of granting waivers from the specific requirements of the regulations such that the application in practice may be different from the provisions of the FCA Handbook.

**Structural changes to funds**

Many of the authorised funds for retail investors had converted to Property Authorised Investment Funds since the previous crisis, and as part of the conversion had modernised their fund documents. One commented that the changes that they made to the price at which investors were able to redeem would not have been possible under the earlier fund documents. Not all funds had modernised.

**Recommendation**

We would recommend a comprehensive review of the regulation governing retail investment in real estate as an asset class. In our view the existing regulatory framework contains many inconsistencies and complexities. It potentially inhibits rather than encourages the development of a broader range of investment products that might mitigate the volatility of the fund market. Uncertainties in the application of the rules had the potential to hamper fund managers abilities to deal with the redemption related issues following the EU referendum vote, and as discussed later in this report, in our view did in practice,

FCA consultations in recent years have concentrated on individual provisions (such as the 2012 consultation on the permitted links rules in anticipation of the introduction of the EU Solvency II Directive) We would recommend a review across all relevant regulation, but highlight in particular:

- COLL 6 and 7 in respect of NURS;
- The permitted links rules;
- The treatment of real estate funds for ISAs.

# Valuation and pricing adjustments

Confidence in the valuation of the underlying assets is crucial to the open-ended funds model as this feeds through directly to the price at which investors can subscribe and redeem units. The caveating of valuation opinions by the independent valuers of open-ended funds and the adjustment of underlying net asset values and the bid offer spread by fund managers was one of the key elements of the 2016 redemption crisis. This section of the report considers the regulatory requirements in respect of valuation, the requirements of the Royal Institution of Chartered Surveyors (RICS), the practical steps taken by fund managers and valuers and some of the broader long term issues that need to be addressed.

**The impact of the FCA Handbook requirements**

The FCA Handbook provisions for Authorised Funds (discussed earlier in this report on page 18) include specific provisions in respect of valuation. These are discussed further below in three key areas:

- General provisions
- Market Value Adjustments
- Dilution levies and adjustments

The regulatory provisions also deal with fund suspension due to valuation uncertainty.

**General provisions**

The provisions relating to investment in immovable property by a NURS are dealt with under COLL 5.6.18. The specific requirements for independent valuation are set out in COLL 5.6.20 which stipulates that:

(a) the *authorised fund manager* must ensure that any immovables in the *scheme property* are valued by an *appropriate valuer* (*standing independent valuer*) appointed by the *authorised fund manager*; and

*(b) the appointment must be made with the approval of the depositary at the outset and upon any vacancy.*

The provisions require a full physical valuation with inspection of properties at least annually and a desk top valuation at least monthly.

For UK property, COLL 5.6.20 (3) (f) states:

*"....any valuation by the standing independent valuer must be undertaken in accordance with UKPS 2.3 of the RICS Valuation Standards (The Red Book) (9th edition published November 2013)"*

This is an important point as valuation on a forced sale basis requires an agreement of the Special Assumptions that will apply. The significance of this is discussed later in this section of the report.

**Market Value Adjustments (MVA)**

COLL 6.3.6 1 7A states:

*"Where the authorised fund manager, the depositary or the standing independent valuer have reasonable grounds to believe that the most recent valuation of an immovable does not reflect the current value of that immovable, the authorised fund manager should consult and agree with the standing independent valuer a fair and reasonable value for the immovable."*

The following key points arise from this:

- The wording is ambiguous and the provisions appear to deal with a situation where valuations have moved significantly since the latest monthly valuation rather than a situation where there is inherent uncertainty and the valuer caveats its opinion;

- Based upon the interviews conducted, there appears to have been different interpretations of the meaning of the crucial phrase "agree with the standing independent valuer". Some funds took the view that they were able to, and indeed were obliged to make a MVA, whereas others took the view that as the valuers had caveated their opinion and could not positively agree to a valuation, that the regulation specifically precluded them from making a MVA.

- The provision does not address whether the "the current value of that immovable" is on the basis of a normal "willing buyer, willing seller" basis as specified in the RICS Red Book or reflective of a distressed sale scenario. The implications of this are discussed further later in this section of the report.

**Pricing and the bid offer spread**

The spread between the cost of acquiring and selling underlying investments is reflected in the price at which investors can buy or redeem units in the fund. The main constituent is Stamp Duty Land Tax (SDLT).

The majority of UK real estate funds operate pricing arrangements where the price at which subscriptions and redemptions are made is based on subscription price where there are net inflows and at redemptions price where there are net outflows. The price therefore swings from one to the other when there is a consistent change from net inflows to net outflows. Short term day to day changes that are not a change in trend are dealt with by being held by the manager (the manager's box. The swing from subscription to redemption pricing occurred in most fund managers during the first half of 2016.

As previously indicated, most of the open-ended funds operate arrangements where pricing moves from bid to offer depending upon net flows. One fund manager operates a model where investors always subscribe at subscription price and investors always redeem at redemption price. In both models some or all of the funds from subscriptions are being used to fund redeeming investors rather than to acquire underlying assets. In most cases subscriptions and redemptions are netted off by the manager and the full subscription price is only applied to the net subscriptions. Remaining investors are not diluted but investors who get their timing right can buy at a discount and sell at a premium In a model where the full subscription price is applied to all inflows, even where these are used to fund redemptions rather than to acquire underlying assets, this results in a notional "premium" for the benefit of existing investors over and above the price required to ensure that they are not diluted, but also ensures that all investors suffer a round trip cost on subscribing and redeeming that reflects the cost of buying and selling the underlying assets. A swinging price means that investors can make significant returns by buying units at the redemption price and selling them at the subscription price when the price swings. There is a concern amongst those interviewed that this encourages short term arbitrage by some investors. On the face of it, this does not increase volatility since such investors are investing against the general flow of funds. However, it may encourage a short term attitude., although we did not identify any evidence of this.

Many intermediaries interviewed said that they have been reluctant to recommend investment in funds with two quoted prices (i.e. a fixed dual price model model) as they believe that this is confusing for retail investors. Other fund managers have been reluctant to adopt this model due to the perceived lack of attractiveness to investors. Nevertheless, this fund successfully raises capital from those investors who believe that dual pricing is an appropriate model. As discussed elsewhere in this report, real estate is a complex asset class and there are many different possible fund structures and pricing models.

**Dilution levies and adjustments**

Dilution levies and adjustments are dealt with under COLL 6.3.8. A dilution levy is a charge to the investor whereas a dilution adjustment is an adjustment to the price of the units. In both cases COLL specifies that such adjustments are only applicable to single priced funds (although this in itself does not necessarily mean what the real estate fund industry describes as single pricing, where the price swings between bid and offer and the pricing already covers the underlying dealing costs of investments) For these purposes dilution is defined as follows:

*"…..the amount of dealing costs incurred, or expected to be incurred, by or for the account of a single-priced authorised fund to the extent that these costs may reasonably be expected to result, or have resulted, from the acquisition or disposal of investments by or for the account of the single-priced authorised fund as a consequence (whether or not immediate) of the increase or decrease in the cash resources of the single-priced authorised fund resulting from the issue or cancellation of units over a period;*
*for the purposes of this definition, dealing costs include both the costs of dealing in an investment, professional fees incurred, or expected to be incurred, in relation to the acquisition or disposal of an immovable and, where there is a spread between the buying and selling prices of the investment, the indirect cost resulting from the differences between those prices."*

As with other pricing aspects of COLL, this wording is ambiguous. One interpretation (in our view the correct one) is that the dilution levy or adjustment is intended to have the same effect as the normal bid / offer spread on a dual priced fund. It is not designed to deal with valuation issues surrounding the underlying assets, although these may have a significantly greater dilution impact than that anticipated in the COLL provisions.

In practice, the FCA appears to have interpreted this to cover the situation where a forced sale of underlying assets does result in a difference in price, We believe that this provision should be expanded to deal expressly with sales in forced circumstances.

**Fund suspension due to valuation uncertainty**

The regulatory provisions in respect of fund suspensions are dealt with in more detail in the next section of this report, which deals with fund suspensions more broadly. However the introduction to the COLL 7 which deals with fund suspensions should be noted:

*This chapter helps to achieve the statutory objective of protecting investors by ensuring they do not buy or redeem units at a price that cannot be calculated accurately. For instance, due to unforeseen circumstances, it may be impossible to value, or to dispose of and obtain payment for, all or some of the scheme property of an authorised fund or sub-fund. COLL 7.2.1 R(Requirement) sets out the circumstances in which an authorised fund manager must or may suspend dealings in units and the manner in which a suspension takes effect.*

This raises an important question as to whether the caveating of valuation opinions by the valuation firms constituted impossibility of valuing the assets or simply uncertainty as to the reliability of the result reached.

**Treating investors fairly**

As outlined in the section of this report on the regulatory framework, there is a general regulatory override now enshrined in AIFMD to treat investors fairly. Fund managers could and did use this to deal with some of the uncertainties in the specific regulatory requirements for valuation and pricing. However, relying on this override rather than explicit regulation in itself adds to the confusion and uncertainty. We believe that a review and clarification of the regulatory provisions regarding valuation as part of a broader review of valuation, discussed further below, is required.

**The role of the depositary**

Any market value adjustment needs to be agreed with the depositary. The regulatory uncertainty put the depositaries in a difficult position. One depositary interviewed said that they accepted a different position from the managers of two funds, one taking the view that it was not permitted to make an adjustment, the other taking the view that it was obliged to. The depositary took the view that the regulation was unclear and that they would accept the position adopted by each of the managers, even though they were clearly different.

**Appropriateness of valuation approach**

It has long been recognised that valuations lag the market and therefore undervalue in a rising market and over value in a falling market. In part this is a function of the basic assumptions of an RICS Red Book valuation. The current valuation approach assumes the price on the day that would be achieved by a willing buyer and a willing seller assuming that the sales process finishes on that day, i.e. that this is the end of a sales process that began some weeks earlier. Like an astronomer surveying the night sky, you are not really seeing the stars as they are now but as they were at the point the light left them years earlier. The net realisable value of assets is what they can be sold for at some point several weeks in the future following a marketing process. In stable markets this makes little difference but can be significant in rapidly rising or rapidly falling markets.

It is widely recognised that there is a mismatch between the liquidity of the underlying asset and the liquidity of the fund vehicle in daily traded funds. Although the unmanageable redemption volumes and valuation uncertainty in the aftermath of the vote are an extreme example, there is an inherent issue over the valuation of assets for subscribing and redeeming investors where market prices are rising or falling rapidly. Generally third party valuations of underlying assets are undertaken monthly with daily adjustments to reflect accrued rent and other movements.

There is therefore a lag in the valuation the effect of which increases as the month progresses. It is also widely recognised that valuations are based on historical data and therefore tend to lag the market. Even if this was not the case, there would still be a mismatch. Funds are paying out redemptions using cash balances and then selling assets to replenish the cash buffer. In a falling market, by the time the asset is sold, the value will have fallen.

There is therefore a strong argument that exiting investors have been overpaid to the detriment of remaining investors. Similarly, when investors subscribe for units in a rising market, by the time the cash is invested into assets, prices will have risen. There is therefore a strong argument that entering investors have been undercharged to the detriment of existing investors in a rapidly rising market.

The impact of this is accentuated as investors tend to invest in a rising market and redeem in a falling market. Unless the cash buffer has been built up in advance of redemptions by selling assets, this is potentially no different to borrowing to meet redemptions.

This is potentially an issue even in situations where there is sufficient cash to meet redemptions and there is not fundamental uncertainty over valuations. There is an argument that the valuation caveats from the valuers after the referendum vote gave managers the ability to introduce market value adjustments that would not have otherwise have been possible. Some managers have recognised this and were effectively trying to forward value to the point at which they would make sales in an attempt to treat customers fairly.

There is a lack of clarity as to whether pricing adjustments were attempts to:

a) Correct for a valuation lag at the point of redemption;

b) Forward value to reflect the expected disposal of assets in the future to replenish cash;

c) Reflect the impact of sales within a restricted timeframe to meet redemption requests.

Feedback was received during the consultation period on the use of derivatives and listed share prices in fair value pricing. This is discussed further on page 35.

Two potential sets of valuation assumptions would appear to relevant depending upon the circumstances of the fund manager:

- Net realisable value assuming a willing buyer and a willing seller and flexibility over the time required to make the disposal;

- Net realisable value assuming a constraint over the time required to make the disposal.

These are discussed below.

*Net realisable value assuming a willing buyer and a willing seller and flexibility over the time required to make the disposal*

Should the valuation be forward looking rather than backward looking at the date of valuation? The RICS used to have a methodology for this but dropped it as being too difficult to operate in practice. This should be revisited in view of developing valuation methodology.

*Net realisable value assuming a constraint over the time required to make the disposal*

This envisages valuing to reflect a forced sale of some or all of the assets of the fund. A number of managers adopted this to a greater or lesser degree. the following important points should be noted:

- The shorter the time frame assumed for making sales, the more extreme the resulting pricing adjustment is likely to be, If fund manager A having assessed its cash flows and pattern of redemptions assumes it has six weeks to effect a sale while fund manager B with a greater redemption obligation to meet assumes two weeks giving a buyer no time to complete effective due diligence, the write-down in values by fund manager B would be expected to be significantly greater. As the timing is driven by the cash available to meet redemptions the two fund managers could arrive at materially different values for the same asset, and would indeed be expected to do so.

- If the lower valuation is to reflect a forced sale to meet redemptions, rather than a general deterioration in the market, should this be reflected through a write-down of the net asset value or through an adjustment to the price for redeeming investors? The latter would appear to be more reflective of the commercial position but does not seem to accord with the regulatory requirements of COLL, although there is an argument that neither approach strictly accords with COLL.

- Valuations that reflect specific circumstances are something that is envisaged in the RICS Red Book so this does not require change in the way that a forward looking valuation approach would.

**What could fund managers have done better?**

*Preparation in advance*

Based upon the interviews with fund managers, valuers and depositories in the majority of cases there appears to have been limited advance consideration as to what would happen in the eventuality of major valuation uncertainty. The proposals for a caveat for uncertainty were agreed amongst the valuers with no formal input from the RICS. The valuers raised the issue with AREF who convened a meeting between most of the managers of funds for retail investors and the leading valuation firms on 23rd May. The fund managers were told by the valuers at that meeting that in the event of an "out" vote in the referendum that values were expected to fall but that nobody would be able to quantify by how much. The valuation caveat wording was agreed between the valuation firms on 13th June and subsequently shared with the fund managers. A pre-vote caveat was also used in valuations prior to the vote.

There appears to have been limited consideration of what this might mean in practice, the regulatory implications or the appropriate approach to valuation adjustments. There does not appear to have been a coordinated approach between fund managers. However, it should be noted:

- It would be difficult for the fund managers to initiate this. As discussed elsewhere in this report, financial services regulation is designed to prevent collusion between investment managers so any initiative for an agreed approach would need to come from the industry organisation, AREF or better still the regulator, the FCA;

- Even if there had been greater consideration of these matters in advance, the regulatory and valuation methodology grey areas means that it seems that there is only a low possibility that a materially better answer would have emerged.

*Better communication of pricing adjustments*

Communication as a broader topic is discussed later in this report. However there was particular criticism from intermediaries over the lack of convincing explanation as to how price and value adjustments were calculated. As was the case for institutional funds in 2008, there is a suspicion in some quarters that some managers were applying arbitrary adjustments to discourage redemptions.

In our opinion managers should have been better at explaining:

a) What was being addressed through the adjustments (i.e. was this to reflect valuation lag for the market as a whole or the impact of forced sales);

b) More detail on the actual methodology applied, both in terms of basis of calculation and how it applied to the specific assets of the funds.

It would also have been helpful if AREF had provided generic information on the operation and regulatory environment of open-ended funds for the press, intermediaries etc. This may have helped reduce the inaccurate reporting of events.

Although the attention of this report has been on retail funds, issues in respect of valuation adjustments occurred also in institutional open-ended funds and in one case a closed-ended fund involved in an "end of life" process.

*Timing of pricing adjustments*

The open-ended retail funds have a daily valuation point at which the price at which investors can subscribe or redeem units is effective. Investors never know the precise price at which they will subscribe or redeem as the pricing is only known at the dealing point at the end of a 24 hour period.

However, pricing adjustments increased the movement, sometimes significantly. The most substantial was the dilution adjustment introduced by Aberdeen Asset Management on 6th July 2016. The details are in the public domain.

After close of trading on 6th July, Aberdeen announced that it was introducing an additional 17% dilution adjustment for those wishing to redeem (see timeline on page 11). The dilution adjustment was introduced with effect from the midday dealing point earlier that day and was therefore effective for redemption requests submitted between midday on 5th July and midday on 6th July.

In view of the substantial movement in the price, the manager introduced a suspension in the fund from midday on 6th July to midday on the 7th and allowed investors who had submitted redemption requests between 5th July and 6th July to with draw them if they wished. Redemption requests made between midday on 6th and midday on 7th were cancelled. In practice it was not possible to communicate this to investors within this initial 24 hour period. Ultimately the suspension was extended to five days.

Although the application of pricing adjustments (either fair value adjustments or dilution levies may look retrospective as they apply to the redemption requests already submitted, this is the way in which the regulations under COLL 6 currently operate.

We would recommend that consideration is given to whether pricing adjustments in some circumstances could be announced in advance for the subsequent valuation point (i.e. at the start rather than the end of the 24 hour dealing period. This would involve a number of practical issues that would need to be considered as well as regulatory changes. It would also not have dealt with the immediate challenges on 24th June, or indeed at other points where there was a sudden change in redemptions.

This is complex and we would suggest that this is considered as part of the broader review of valuation and pricing discussed below and of regulation covered in the previous section of this report.

**What could be done in future?**

We briefly address two questions below:

- Should managers be able to anticipate future changes?
- Is valuation approach fit for purpose?

*Should managers be able to anticipate future changes?*

Although the market did not anticipate an “out” vote in the referendum, the event itself was clearly fixed. Should managers have adjusted pricing in anticipation of the probability of an “out” vote? The advantage is that it would smooth pricing and reduce volatility. The challenge with this approach is that it is highly subjective and there is therefore the risk that managers either are or are perceived to be manipulating valuations to discourage redemptions.

*Is valuation approach fit for purpose?*

An update of the RICS Red Book is due in 2017 so this would appear to be a good time for a comprehensive review of valuation approach for open-ended funds.

The key stakeholders who we believe should be involved at a minimum are:

- FCA
- RICS
- AREF
- DATA (The Depositary and Trustee Association)

Representatives of the RICS and DATA have been interviewed as part of the preparation of this report and have indicated that they would be willing to participate in a joint initiative. Other organisations, such as the Investment Association and the Investment Property Forum, may also have relevant views. The initiative should consider:

- Valuation methodology;

- Roles and responsibilities of the fund manager, the depositary and the valuer;

- Regulatory requirements in respect of valuation and any improvements that could be made to the regulation;

# Suspension of trading

The regulatory framework for suspension of trading in units of authorised funds is set out in COLL 7. This sets out very general considerations rather than setting out any detailed mechanics or indeed explanation of the circumstances that might give rise to a suspension.

As outlined in the background to this report, none of the authorised open-ended funds investing it UK real estate had previously suspended trading. It was therefore uncharted territory for the fund managers, depositories and the retail distribution industry.

A distinction needs to be made between the temporary suspension by Aberdeen in its fund and the suspensions by other fund managers. The suspension by Aberdeen was a temporary one to allow investors to withdraw redemption requests in response to a major pricing change and should therefore be regarded as part of the pricing process rather than comparable with other fund suspensions. Press coverage at the time also covered the deferral of redemptions by Canada Life. This fund is an insurance linked product rather than an authorised fund for retail investors. The arrangements for deferral of redemptions are not governed by the deferral or suspension provisions for retail funds set out in COLL.

As set out in the introduction to this report, Standard Life Investments was the first fund to suspend on 4th July with effect from midday on 4th July. Aviva Investors announced the suspension of their retail fund shortly after midday on 5th July but with effect from 4th July.

Following the news of the suspension by Standard Life Investments on 4th July, the managers of the overwhelming majority of other retail funds saw a very significant increase in redemptions, forcing them to introduce suspensions or significant pricing adjustments. There was clearly a major knock on effect on other open-ended funds. Although there was a clear increase in redemptions at other funds, we cannot say whether some or all other funds would have avoided the need to suspend had it not been for the knock on effect of the suspension of the Standard Life fund. All funds were already experiencing large redemptions. It is not possible to conclude whether or not they would have withstood this.

Managers and intermediaries have confirmed that prior to lifting suspensions, managers consulted extensively with intermediaries to gauge the likely level of redemptions after suspension was lifted. Based on feedback from intermediaries interviewed, this contrasted with behaviour prior to the referendum vote where the majority of managers had made little effort to reach out to investors (indirectly via their intermediaries) to determine likely behaviour in the event of an out vote.

The feedback from intermediaries interviewed during the preparation of this report suggests that when promoting funds prior to the suspensions, managers did not suggest that suspension was something that should be anticipated. Intermediaries have commented that this has been highlighted much more prominently as a risk in discussions since the suspensions.

Based on the interviews with managers, depositaries and others, it would appear that there was little in the circumstances that managers could have done differently in effecting suspensions.

As has been discussed elsewhere in this report, the distribution structure for retail investors requires daily trading for operational reasons. In some cases, those investors who were invested in a mixture of retail real estate funds some of which suspended and some of which continued to trade were able to deal with the operational aspects of flows in and out by subscribing in or redeeming from funds that remained open. Those whose available funds all suspended faced more significant problems. This highlights two important points:

- In some cases, it does not seem to be necessary for all real estate investment to be in daily traded vehicles provided that the portfolio has an allocation to some that is.

- Daily pricing and the ability to subscribe daily is more operationally essential than the ability to redeem daily. As discussed in the regulatory section, the suspension provisions for NURS schemes do not allow subscriptions to continue during a period of suspension. This is a different treatment to the deferral provisions for insurance linked products.

The significance of this is discussed in more detail on page 33 in the section of this report looking at the potential future development of retail funds.

# Dilution adjustment or suspension?

The detailed operation of pricing and valuation adjustments have been discussed on pages 22 to 27. The detailed operation of suspension have been discussed on pages 28 to 29. Fund managers faced a fundamental question when faced with levels of redemptions that could not be met through the available liquidity buffer as to whether to plan to sell assets in a forced timescale and adjust redemption price accordingly or to suspend redemptions until an orderly market could be re-established.

It is important to note that anti-dilution pricing based on assumed forced sales may discourage further redemptions and ensure that those forced sales do not happen in practice. This may make the price to be applied quite subjective..

Based on the interviews undertaken, there are strongly held views amongst managers and investment intermediaries that either forced sale pricing or suspension is "right". Key points would seem to be:

- As discussed in detail in the valuation section of this report, pricing based on forced sales will give very different outcomes depending up on the situation of the fund. A fund that only has cash to meet a week's redemptions that instructs a valuer to value some or all of the assets on that basis should get a very significantly different valuation from one that has available cash to meet a month or two month's redemptions and instructs a valuer to value the assets on that basis. Fund flows, available cash and therefore the time to sell can change rapidly as was the case in the aftermath of the referendum vote. This creates considerable practical challenges to valuing on this basis.

- In light of the significant difference between pricing adjustments and suspension / deferral, there would seem to be a compelling case for fund managers being clearer up front as to which of these strategies they will follow in particular circumstances. Clarity before investors subscribe as to whether the fund will seek to remain open through sales or defer / suspend would allow investors to make more informed choices. This would allow those investors who need daily trading (even if in practice they do not use it) to select the appropriate fund for them. This is discussed further below.

We received the following feedback from fund managers:

- A number of fund managers were of the view that "fund suspension" needs to be regarded as part of the normal, day-to-day tools of managing a fund rather than something bordering on the catastrophic, The stigma of suspending a fund needs to be removed;

- Some fund managers were concerned by the limitations on their actions that would be imposed by stipulating in their documents whether they would seek to adjust pricing rather than deferring / suspending or vice versa in particular circumstances. How far can managers move from the present position to accommodate the needs of investors? This should be discussed as part of the consultation phase.

- Some fund managers felt very strongly that suspension was important in preventing a broader, property market crash. They were of the view that had all fund managers sold assets at distressed prices to meet redemptions, this would have triggered a broader property market fall. It is impossible to reach any conclusion as to whether or not this is correct.

Taking these comments into consideration we would like to suggest the following model for discussion and more detailed consideration by the industry, the platform providers and the FCA:

- Amending the deferral provisions under COLL such that deferral for up to six months rather than full suspension would be the normal delay mechanism for redemptions that cannot be met without forced sales of assets. This would be consistent with the timeframe envisaged for a limited redemption fund and is also consistent with many insurance linked products marketed to retail investors. The deferral provisions in COLL are "one-sided", i.e. they allow a deferral of redemptions without a deferral of subscriptions. An alternative approach is to amend the existing suspension arrangements to allow a partial suspension or a full suspension.

- We believe that it would be clearer for investors if in any given circumstance the fund would have the option of the new deferral / partial suspension or anti-dilution pricing but not both. Whilst it is recognised that it might be inconvenient for fund managers to have to determine this in advance, it is only fair to investors if managers are given the tool of a flexible, easier to use partial suspension, they should be clear in what circumstances that they might use it.

- In the event that anti-dilution pricing or deferral was insufficient, or not available as an option for a particular fund manager, all funds would ultimately have the option of a full suspension as they do at present.

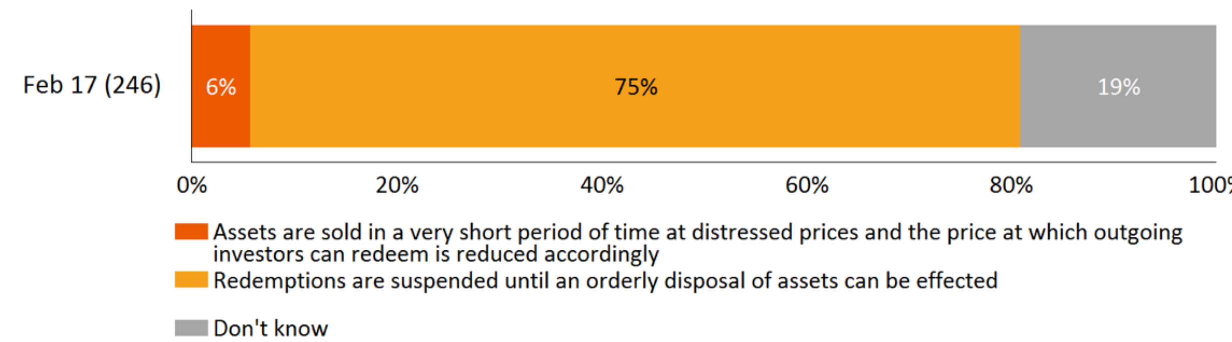
This would seem on the face of it to provide a more "normal" option for delaying redemptions than a full suspension and would allow managers to select and disclose whether they would use the anti-dilution pricing or deferral model, generally or in particular circumstances. It would also require pricing to remain in operation throughout the deferral / partial suspension period which potentially mitigates some of the issues for model portfolios.

This is illustrated on the following page where the distinction of a deferral of redemptions and a fund suspension are discussed.

It would require both behavioural change by fund managers, amendments to the regulation and operational changes to the platforms to allow queuing of investors awaiting redemptions. It is not clear the extent to which the difficulties the platforms face in queuing investors is inherent in the current operating structure. It would also require managers to price funds whilst deferred. Queuing should not be obligatory, i.e. it should be possible to delay or reject redemptions requests.

It is also important to note that many intermediaries regard daily liquidity as essential for the operation of model portfolios. The suspension of funds was hugely problematic for the operation of model portfolios and intermediaries operating through model portfolios would on balance therefore prefer funds with large and early anti-dilution levies to deferral / suspension. It is important to note, however, that there is an overwhelming preference by intermediaries to avoid actual forced sale of assets.

As part of its regular surveying of intermediaries, in the February 2017, AREF asked about redemptions from funds in extreme circumstances. Should an unexpected event render an open-ended fund unable to meet redemptions, a clear majority of advisers would prefer redemptions were suspended rather than a fire-sale of assets.



**Possible fund models**

This is proposed as a model for discussion rather than a definitive answer.

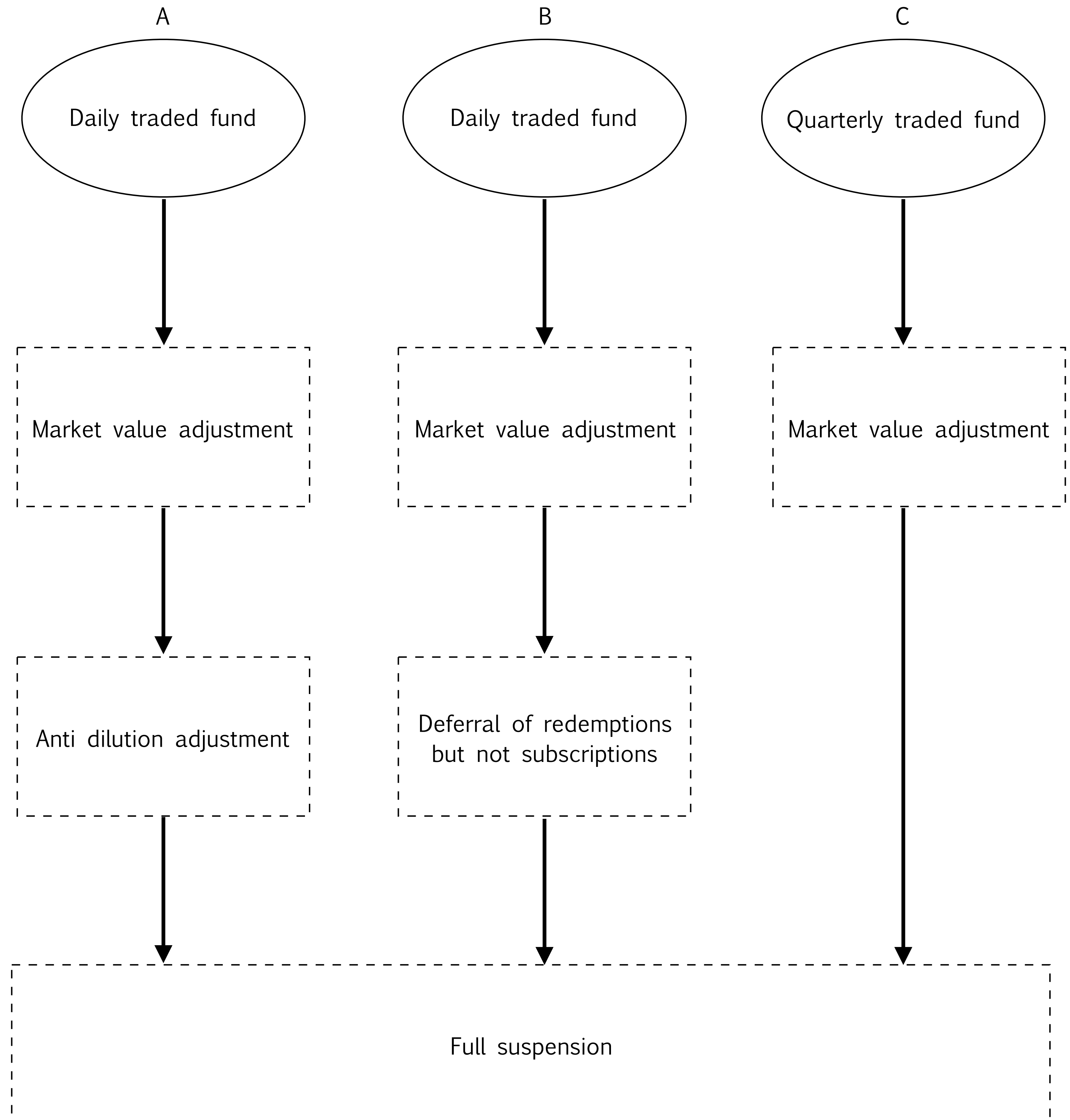
Based on the preceding analysis and also assuming the relevant changes to the regulation in COLL, three possible models for retail funds are set out in the diagram on the right. Fund A is a daily traded fund that has opted to use anti dilution adjustment pricing to deal with high volumes of redemptions that would result in force sales. Fund B is a daily traded fund that has opted to use deferral to deal with high volumes of redemptions that would result in force sales. Fund C is a fund with limited redemptions. Although limited redemptions may be up to six monthly, we have assumed that the fund will deal quarterly as this is more usual in institutional funds.

All three funds have the ability to make a market value adjustment to the Net Asset Value of the fund as a whole if the valuation by the Standing Independent Valuer is not reflective of the market.

Fund A will adjust the cancellation price for redeeming investors to reflect the additional discount in sales price of assets to meet a severely shortened timescale for sales.

Fund B defers redemptions by up to six months to allow an orderly disposal of assets prior to meeting redemptions.

All three funds have the option of complete suspension of trading in units in exceptional circumstances.



# Possible long term change to open-ended funds

This section of the report provides some very high level comments on possible long term change to retail investment in real estate as an asset class that might mitigate some of the challenges from the mismatch in the liquidity of units in a daily traded retail real estate fund and the illiquidity off the underlying assets. The challenge of offering liquidity in a fund investing in illiquid underlying assets was a key message of the 2012 report and many funds for institutional investors have taken steps to address this since then by reducing the liquidity provided. The regulatory and operational requirements of the UK retail distribution infrastructure make this a much more difficult route for funds for retail investors.

**Providing liquidity**

As discussed earlier in this report, the various retail funds had very different levels of liquidity at the date of the referendum:

- Levels of cash varied significantly from fund to fund;

- The extent to which funds held shares in REITs also varied significantly, both in general terms and also for those who did hold REIT shares, the extent to which they had sold them prior to the result of the vote.

- It is possible to hold property futures as an asset that can be more rapidly sold than physical real estate. However, at this stage the market is small and little use is made of derivatives in practice.

Short term liquidity comes at a significant potential cost to long term investors:

- Holding significant levels of cash in a fund is a drag on performance;

- The need to sell assets to meet short term redemption requirements has an impact on the types of asset bought. Open-ended funds will generally therefore hold a higher proportion of smaller assets and assets that can be sold immediately. Fund managers interviewed generally accepted that this resulted in a sacrifice of some performance.

As has been discussed elsewhere in this report, the impact can be made more severe by:

- Funds holding shares as part of their liquidity at a point at which the market price of such shares fell dramatically. This has the effect of increasing the balance sheet volatility of the funds concerned.

- Borrowing to fund redemptions in a falling market. This was an issue in institutional funds in 2008 but was generally not a feature of the post referendum events.

**Why is daily trading needed?**

As discussed already, there are significant regulatory and operational reasons why retail investors need to invest in daily traded funds. The regulatory restrictions are more points of detail and inconsistencies rather than fundamental requirements. The regulations in COLL already provide for the ability to have a fund that has daily subscriptions but less frequent redemptions (of up to six months). It is possible to have a class of units that provide for this within a fund that offers daily redemption. This has been attempted with minimal success. Offering this in a fund that is nonetheless daily traded does not protect investors from the cost of the cash drag and investment limitations.

The operational challenges are more significant. The platforms through which retail investors primarily invest in open-ended real estate funds only provide for daily trading and cannot queue investors during deferrals, suspensions or for trading periods that are longer than daily. The platforms interviewed in the preparation of this report have indicated that it would be possible to develop the capacity to deal with both, but at present there is no demand from intermediaries. Interviews with intermediaries suggest that this is the case, with intermediaries generally taking the view that they need the capacity to subscribe and redeem daily in order to operate model portfolios.

**Model investment portfolios, insurance products and defined contribution pension schemes**

A detailed comparison of model investment portfolios, unit linked insurance products and defined contribution pension schemes is outside the scope of this report. However, there would seem to be some strong common characteristics. The need for daily liquidity is driven by the operational requirements for individual investors to move money in and out rather than any desire to invest on a very tactical daily basis. The need to subscribe daily and to price funds daily does not automatically equate to a need to redeem units daily.

As indicated above, the ability to redeem on a daily basis comes at a significant cost in terms of the cash drag and potentially the choice of investment assets. The primary beneficiaries of this are the minority of investors who are making short term tactical use of open-ended funds rather than the model investment portfolio investors who use the daily redemption facility in relatively small amounts for operational needs.

As has previously noted, there would appear to be strong parallels in the challenges of making illiquid investments in model portfolios for retail investors, unit linked insurance products and defined contribution pension schemes. The industry has made some steps to address the changes brought by the shift to defined contribution pension provision, in particular:

- The IPF, AREF, EPRA and IFA research paper, "Returning to the Core - Rediscovering a Role for Real Estate in Defined Contribution Pension Schemes", published in October 2013;

- The development of new products that combine direct property with listed property company shares, for example for investment of the real estate allocation of the National Employment Saving Trust (NEST).

Limited progress has been made since 2013.

It would seem that there is a case for looking at real estate fund product development for model investment portfolios, insurance products and defined contribution pension schemes as a single, combined challenge. This is an area in which AREF could take a lead. This should look at what liquidity is really required, and what the alternative ways of providing that liquidity might be. These are discussed below.

**Daily traded funds**

Although as discussed above, providing daily liquidity in a fund comes at a cost, this is a cost that many investors are willing to pay. One of the issues at present is that investors are not sure whether they are in funds that will suspend / defer or in funds that will seek to sell assets even at very significant levels of discount. Provided that investors know, they can decide in which funds to invest. If this is the case there potentially remains a role for daily traded funds that look to remain open throughout. However, if funds evolve into those that will seek to guarantee liquidity in all but the most extreme circumstances and those that do not and seek instead to defer or suspend to avoid forced sales, the funds that provide liquidity will attract the investors who need that high level of liquidity, either for tactical reasons or because it is the liquid element of their portfolio that they need for day to day operational considerations.

If funds evolve in this way, those that remain liquid are likely to face challenges of the type following the referendum vote that are more frequent and more severe, suggesting larger pricing swings to reflect the pressures for sale of the underlying assets.

**REITs**

The pricing of REIT shares is more volatile than the underlying asset or the units in open-ended funds. Historically REIT shares have traded between a 10% premium (2007) and a 50% discount (2008) to net asset values. This was a period that saw a peak to trough fall of underlying property values of nearly 50%, so the REIT share change magnified very significantly the fall in the underlying assets.

In the long term, if there is an evolution of open-ended retail funds away from daily trading, REIT shares may provide a better alternative for those who want daily liquidity for tactical reasons and for model investment portfolios, insurance products and defined contribution pension schemes managing the proportion of their investment that does need to be liquid for operational reasons.

At the moment, the platforms would not allow retail investors to invest directly in REIT shares (or indeed other shares) directly via the platforms although this might change in the future.

Currently UK REITs do not provide balanced portfolios across the broad range of UK commercial property that open-ended funds do, and generally operate with higher levels of gearing, Their performance does not therefore track the general UK commercial property market to the same extent that the large retail funds do. There is at least one Exchange Traded Fund (ETF) that invests in REIT shares and holds gilts to reverse out the effect of gearing. This is discussed further below.

**A different form of listed vehicle**

During the fund suspensions, the London Stock Exchange floated the idea of using market listing as a way of providing liquidity during the period of suspension. Although this does not appear to be a viable option for dealing with temporary suspension, the concept of less liquid vehicles with some element of subscription and redemption with listing providing liquidity should not be dismissed out of hand.

Arguably externally managed REITs making periodic capital raises (of which Tritax Big Box REIT is an example) are already part of the way there. Such vehicles should not necessarily be seen as a replacement for more conventional real estate funds for retail investors but as part of the solution to building liquidity in a portfolio. Even for this, it is important to note that the volatility of REIT shares was such that shares fell further in price than the discount applied by open-ended funds selling assets to meet redemption needs.

Further discussion of the relative attractiveness of listed and unlisted vehicles is outside the scope of this report. Retail investors should have access to both. It is important to note, however, that listed property company shares have proved to be exhibit more price volatility than the underlying assets. At present investors lack a less liquid, less volatile option rather than a shortage of liquid routes to invest.

**Exchange Traded Funds (ETFs)**

The Wealth Management Association (WMA) has developed an index series for private wealth strategies. The five indices track different multi-asset investment strategies with corresponding risk-reward profiles. Within this is a real estate specific index (Commercial Property (MSCI UK IMI Liquid Real Estate). One fund manager has an ETF that tracks this index. It invests in REIT shares and reverses the effect of gearing by holding gilts.

It has been suggested as a tool for providing additional liquidity, either within a model portfolio sitting alongside traditional open-ended property funds or held directly by the property funds themselves. Further discussion of this is outside the scope of this report, but it is worth further consideration in considering future product development.

The ETF currently lacks scale but may be something that develops in the future.

**Converting existing daily traded open-ended funds into REITS / listed vehicles**

This would appear to involve a number of challenges, not least of which is the apparent difficulty in making them available to retail investors via the platforms. Again, in the longer term it should not be dismissed out of hand as an option for fund managers, particularly if concerns over the risk of fund suspensions discourages retail investors from investing in daily traded open-ended funds, discussed further below.

As above, further discussion of the relative attractiveness of listed and unlisted vehicles is outside the scope of this report. Retail investors should have access to both.

Any decision to list a current open-ended fund should be driven by commercial considerations by the manager if there is perceived to be investor demand for the product.

### Derivatives

In the longer term, the use of property derivatives, specifically futures, might also be a route within a fund to holding assets that provide greater liquidity than physical real estate and could therefore potentially contribute to the liquidity buffer. However, the market is currently extremely small. It needs to develop significantly before it can usefully contribute.

It is outside the scope of this report to consider how the futures market might be developed further, but we think that this could be a useful separate exercise.

This was a source of considerable interest during the feedback phase and it was considered that derivatives could play a role both as a liquidity tool and as a pricing tool.

### Pricing using derivatives and listed securities

As discussed earlier in this report, managers used a variety of methods in determining market value adjustments. An element of this involved in some cases using the movement in pricing of derivatives and listed securities. During the consultation phase of this report, we received further analysis of possible extension of this, some of it very detailed. As outlined elsewhere in this report, we have recommended further work on the appropriate approach to valuation in different circumstances. The feedback received is considered relevant to discussion on methodologies for fair value adjustments in the future and has been shared with AREF to be used in the follow up on this matter.

### Secondary trading

There was also interest during the consultation phase in the potential for secondary trading in units in open-ended funds. This is also raised in the FCA consultation on illiquid assets. It is not clear how a secondary market for retail investors could operate in practice, whether this would be feasible within the constraints of the platforms and whether it would provide any different an outcome from that currently provided by the matching by the managers of subscriptions and redemptions. It would appear to be a valid area for further research.

### Why is long term development of funds important?

Several intermediaries interviewed said that they were moving all of their investments out of UK property funds and into funds investing in global real estate securities because of the perceived risk of open-ended funds suspending and causing operational problems for model portfolios.  It would be unfortunate if UK retail investors could not invest in UK property through mainstream investment vehicles because of the operational restrictions of UK retail distribution infrastructure. It is therefore important that the industry finds ways to facilitate retail investment in real estate through evolution of the retail funds themselves and / or through the development of intermediate vehicles between the platforms and the funds.

The Bank of England has already warned of “reliance of the market in recent years on inflows of foreign capital”. It is important that retail investors are not precluded from investment in UK property through a range of listed and unlisted pooled investment products. Regulatory and operational improvements are needed to improve the effectiveness of both.

### Recommendation

The period following the previous crisis saw a period of product development for funds for institutional investors. There would appear to be an opportunity following the post EU referendum liquidity event for product development for retail investors. We believe that this should go beyond purely retail investment and also look at insurance linked insurance products and defined contribution pension schemes. AREF should take a lead in encouraging this.

We would recommend that this is achieved through improvements to the regulatory and operational framework to allow the evolution of new products rather than any attempt to force change to the current retail fund model. We see this as an opportunity for the development of additional types of fund to give investors greater choice rather than as a replacement for daily traded funds.

# Communication

**Communication by fund managers**

A key area outlined in the 2012 Report was the need to improve communication with investors by fund managers. It was noted particularly in 2012 that managers acknowledged that progress made in communication with institutional investors had not been matched in retail funds. Many, but not all, fund managers have continued to make significant progress in this area with institutional investors. This has been more limited in many retail funds where managers feel that communication with a complex and dispersed distribution network remains difficult. Whilst this is undoubtedly the case, technology changes mean that this should not present an insurmountable problem.

Although intermediaries interviewed felt that communication varied both in quality and quantity, they did feel that managers overall had made significant efforts to communicate. Some managers of larger funds appear to have found the process of communicating with investors particularly challenging.

Intermediaries also commented that communication improved as managers reacted to events. Whilst communication before the event would have been better, some of the improvements in communication after the previous crisis were because managers continued to do the things that they started during the immediate crisis.

Some managers appear to have made greater efforts in communication than others and feel that better interaction with intermediaries helped them to reassure investors and thus reduce the level of redemptions. In practice it is impossible to isolate this from all the other circumstances that differentiated funds. Even those funds with the best communication and interaction with investors saw materially increased redemptions in the aftermath of the vote. Whilst we think that improving communication is important, we do not think that this is insolation would prevent future open-ended fund volatility.

As has been discussed earlier in this report, particular concern was raised regarding communication of methodology applied for fair value and dilution adjustments.

The nature of the communication to be provided to investors does depend on the way in which retail funds evolve in the future. As outlined in the 2012 report and discussed elsewhere in this report, there is a trade-off in funds between homogeneity and diversity. In the context of retail funds there is a question as to whether the direction should be to create simpler, more uniform funds with standardised communication or to accept that real estate is a complex asset class and that progress in developing better real estate funds will be achieved through increased investor choice and greater investor understanding of the products.

This will be subject to increased focus over 2017 with as the details of the new EU regulation on key information documents (KIDs) for packaged retail and insurance-based investment products (PRIIPs). This very much envisages the simple, homogenous route.

A direction of travel that ends up with greater diversity and complexity will increase the burden of communication by fund managers and also by AREF and others in educating the retail distribution industry, discussed further below.

**Communication by AREF**

There is a broad question as to whether AREF could have done more to communicate with both the press and the retail distribution industry to explain what was happening during the pricing adjustments and suspensions. Whilst more information on the distinctions between different pricing adjustments and different suspension approaches might have ensured better quality coverage, it must be questionable how much of a difference this would have made in the media frenzy following the referendum vote.

Some managers suggested that more should have been done to communicate that fund managers have the option of suspension as one of their generally available tools to deal with redemptions and that this should not be seen as a sign of the extreme circumstances.

This would appear to be disingenuous for two reasons:

- As a point of fact, the suspension of trading in the units of authorised funds for retail investors was exceptional. Specifically onshore funds for UK retail investors investing in UK assets did not suspend in 2008.

- As covered elsewhere in this report, the feedback from intermediaries suggests that when promoting funds prior to the suspensions, managers did not suggest that suspension was something that should be anticipated.

Although there might be doubts about how much of an impact better communication by AREF might have had in the immediate aftermath of the referendum vote, there seems to be a stronger case for improving communication in the future, particularly if significant changes are to be made to the operation of open-ended funds. AREF should consider whether it needs additional resources to achieve this, for example through the use of an external provider.

An important element of communication is educating investors. This is discussed further below.

**Educating the retail distribution industry**

As discussed earlier in this report, in the 2012 Report, we recommended that AREF take a greater role in the education of IFAs to improve their understanding of open-ended real estate funds. We think that this remains an important matter for concern, and we believe that progress has been disappointing. Based upon the interviews conducted, the level of understanding of intermediaries of some of the intricacies of open-ended funds was variable. We would recommend that further steps are taken to improve the understanding of IFAs.

This should cover two broad areas:

- The operation of open-ended funds as they function at present so that intermediaries understand the mechanics of subscription and redemption, unit pricing and the circumstances in which trading in the fund may be deferred or suspended. This will be particularly important if funds diverge on whether to suspend or adjust pricing through anti-dilution levies in the face of redemption requests potentially beyond that which can be met with available liquidity;

- In the longer term, if there are changes to the operation of retail funds that reduce liquidity, then it will be important that the industry generally and AREF specifically take an active role to educate intermediaries. Possible changes to the open-ended fund model are discussed on page 33 of this report

AREF will need to be sensitive to the impact on individual managers and funds of communication it has with intermediaries and investors.

Consideration should be given to whether the managers of retail funds should provide funding to enable a quality education programme to be provided.

**The broader impact on the real estate industry**

A number of those interviewed who have roles in the real estate industry but are not directly involved in the management of open-ended real estate funds expressed concerns that the high profile of the issues faced by the funds, particularly news coverage of the suspensions tarnished the reputation of the industry as a whole. This is a highly subjective and emotive topic. It is therefore difficult to draw any definitive conclusions as to whether or not there was any damage beyond the retail funds. It is, however, a widely held concern and it is important therefore that AREF's response to the crisis and to this report seeks to build a consensus in the broader real estate industry rather than just amongst the funds managers of the retail funds directly affected.

# Recommendations

The following key recommendations are made in this report:.

**Review of regulation**

We would recommend that the industry and the FCA work together to undertake a comprehensive review of the regulation governing retail investment in real estate as an asset class. We would recommend a review across all relevant regulation, but highlight in particular:

- COLL 6 and 7 in respect of NURS;
- The permitted links rules;
- The treatment of real estate funds for ISAs.

**Valuation**

A review is required of the approach to valuation of the underlying assets of open-ended funds. This review should be a joint initiative involving at a minimum the FCA, RICS, AREF and the DATA. Other organisations, such as the Investment Association, may also have relevant views.

**Communication**

AREF should take a more active role in future in communication of broad real estate fund related matters for the retail investment industry and for the education of the intermediaries in that market, whilst taking care to ensure that this could not be seen as favouring any particular manager, fund or model..

**Product development**

The period following the 2008 crisis saw significant product development for funds for institutional investors. There would appear to be an opportunity following the post EU referendum liquidity events for product development for retail investors. We believe that this should go beyond direct retail investment and also look at insurance linked products and defined contribution pension schemes. AREF should take a lead on this.

**Timetable**

Any changes to the structure and operation of real estate funds for retail investors and the retail distribution structure between the investors and the funds should be undertaken slowly, with extensive consultation and by evolution rather than prescription. The retail investment structure is complex and any attempt at sudden and dramatic change could have very significant adverse effects for the underlying funds and the market more broadly.

# Appendix
# Interviewees

Our thanks to the following people who were interviewed for this report or provided additional information.

| | | | |
|---|---|---|---|
| Graeme Rutter | Schroders | Shakhista Mukhamedova | Brewin Dolphin |
| Dugal Hunt | CBRE Global Investors | Gareth Johnson | Brewin Dolphin |
| Alistair Dryer | Aviva Investors | Rob Morgan | Charles Stanley |
| Rebecca Middleton | DTZ Investment Management | Paul Marchant | Quilter Cheviot |
| Matt Day | Kames Capital | Alan Miller | SCM Direct |
| Mark Bunney | Kames Capital | Peter Toogood | The Adviser Centre |
| Tony Yu | Kames Capital | Carol Starkey | Wills and Trusts-uk |
| Kieran Farrelly | Townsend (at the time) | Ross Henderson | Smith Pinching |
| Paul Richards | Mercers | Jeff Vernon | Rathbone Investment Manangement |
| Douglas Crawshaw | Willis Towers Watson | Alex Moore | Rathbone Investment Manangement |
| Peter Hobbs | b-Finance | Amanda Sillars | Jupiter Asset Management |
| Linda McAleer | Hyman Robertson | Amandine Thierree | Financial Express |
| Nick Duff | Aon Hewitt | Oliver Clarke-Williams | Financial Express |
| Chris Hills | Investec | Gerry Ferguson | Aberdeen Asset Management |
| Andrew Summers | Investec | Russell Chaplin | Aberdeen Asset Management |
| David Adler | Barclays Wealth | Tim Sankey | Aberdeen Asset Management |
| Guy Morrell | HSBC Private Bank | Paolo Alonzi | Standard Life Investments |

| | | | |
|---|---|---|---|
| Guy Glover | BMO | Matt Jarvis | Legal & General |
| Marcus Phayre-Mudge | BMO | Mike Barrie | Legal & General |
| David Hirst | UBS | Emma Long | Legal & General |
| Howard Meaney | UBS | Andy Banks | Legal & General |
| David Wise | Kames Capital | Fiona Rowley | M&G |
| Ian Mason | AEW | James Mieville | M&G |
| George Henshilwood | AEW | James Thornton | Mayfair Capital |
| Charles Follows | AEW | Ian Baker | Rockspring |
| Andrew Strang | AEW | Tom Dorey | Schroders |
| James Hyslop | AEW | Don Jordison | Columbia Threadneedle |
| Andrew Hook | Aviva Investors | Tom Goodland | Columbia Threadneedle |
| Justin Brown | Blackrock | Stephen Elliott | Royal London Asset Management |
| John Harding | Blackrock | John Garlick | Canada Life |
| Adrian Benedict | Fidelity | Mike Roberts | Canada Life |
| Marcus Langlands-Pearse | TH Real Estate | Simon Pinner | Brooks Macdonald |
| Ainslie McLellan | TH Real Estate | Kevin Addison | Brooks Macdonald |
| John Kilcommons | Henderson | David Simmons | St James's Place |
| David Grocott | Henderson | Charles Gunn | St James's Place |
| Simon Hillenbrand | Henderson | Charles Hammerton | St James's Place |
| Philip Nell | Hermes | John Roberts | St James's Place |

| | | | |
|---|---|---|---|
| Pamela Thompson | Eversheds | Darren Banks | Northern Trust |
| Melville Rodrigues | CMS | Danny Wynn | Fundsnetwork |
| Matt Huggett | A&O | Chris Blakeley | Novia |
| Barry Stimpson | Bond Dickinson | Katie Davies | Novia |
| Andrew Scott | Bond Dickinson | Simon Molica | Morningstar |
| Sandra Dowling | PwC | Jonathan Rae | British Land |
| Michael McKell | Tullett Prebon | Martin Greenslade | Land Securities |
| Stephen Ashworth | Tullett Prebon (tpsynrex) | Timon Drakesmith | Hammerson |
| Darko Hajdukovic | London Stock Exchange | Justin Read | SEGRO (at the time) |
| Louis Davies | London Stock Exchange | Chris Laxton | |
| Jon Masters | ARCA PRM | Ben Stirling | |
| Becky Thomson | RICS | Simon Clark | Linklaters |
| Andrew Knight | RICS | Jos Short | Internos |
| Andrew Renshaw | JLL | Andrew Wilson | Towry (at the time) |
| Michael Brodtman | CBRE | Rob Bould | |
| David Tudor | CBRE | Iain Reid | |
| Michael Crowe | Knight Frank | Phil Ljubic | PML Capital |
| Gordon Shaw | Capita | Charles Ostroumoff | ARCA PRM |
| Ian Sharpe | Nat West | Dr Steven Devaney | Cass Business School, City, University of London |
| Ian Davis | Citi | Professor Pat McAllister | Department of Real Estate and Planning University of Reading |

## About The Association of Real Estate Funds (AREF):

- The Association of Real Estate Funds (AREF) is the voice of the real estate funds industry.

- Full members have a collective NAV of circa £65bn under management and the majority are benchmarked using the leading AREF/IPD UK Quarterly Property Fund Indices (QPFI)

- We are recognised by policy makers, regulators, tax authorities and other official organisations as the leading representative of real estate funds and therefore have the ability to influence the way our industry evolves

- Investors and advisers are aware of the high standards our members adhere to, both in transparency and corporate governance, promoting confidence in investing in real estate through member funds.

Website: www.aref.org.uk

AREF

www.johnforbesconsulting.co.uk

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