



The Association of Real Estate Funds

Code of Practice



Contents

Introduction and aims 2 | Disclosure 3 | Compliance 4

1 Governance of the fund

1.1	Fund structure and objectives	6
1.2	Management structure and accountability	7
1.3	Reporting	8

2 Operating the fund

2.1	Valuations	10
2.2	Cash and money market instruments	11
2.3	Gearing	11
2.4	Use of derivatives	12
2.5	Distributions	14
2.6	Management fees and other expenses	15
2.7	Insurance and service charge rebates	16
2.8	Disaster recovery	16

3 Unit dealing and performance

3.1	Dealing (subscriptions and redemptions)	17
3.2	Secondary market	19
3.3	Unit turnover	19
3.4	Investor analysis	20
3.5	Historical performance	21
3.6	Fund benchmarks	21

Annex: Performance data	22
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Introduction and aims

The aims of the Code are to:

- achieve high standards of transparency across the sector and promote consistency and comparability between funds
- provide a framework for good corporate governance within property collective investment schemes
- promote standards of best practice concerning the content and format of periodic statements and other promotional documentation
- encourage increasing levels of disclosure by all member funds to existing and potential new investors.

Please note:

- 1 This version of the AREF Code of Practice ("the Code") is effective from November 2009 and supersedes previous versions. It is published on AREF's website: www.eref.org.uk.
- 2 The Code is a working document that will require regular updates to reflect market, regulatory and policy changes. The AREF Code Committee will continuously review it in the light of best practice and update and republish it as necessary.
- 3 The Code covers a wide range of property collective investment schemes reflecting the types of funds that are AREF members.
- 4 The Code has been prepared to cater for the information needs of "professional" rather than "retail" customers (as defined by the Financial Services Authority).
- 5 In any cases of conflict between the provisions of the Code and legislative/regulatory requirements, the latter will take precedence.
- 6 The Code is supplemented by other AREF guidance published on the AREF website such as the AREF Guidance on Expense Ratios.

Disclosure

The Code sets out various disclosure requirements, some of which are minimum standards, and some of which are best practice.

Those disclosures which are minimum standards should be available to existing and prospective investors on request. Some of this information (in general, 'standing' data which does not change regularly – such as the disclosures required under section 1 on governance) should be disclosed on the member's page of the AREF website, and any changes to this information should be updated as and when necessary. The 'active' minimum compliance data will be contained in the IPD Property Fund Vision Handbook, based on data submitted to IPD by members and published quarterly, and this document should be made available to existing investors and to prospective investors on request.

In general, the Code is not prescriptive about where the disclosure under the best practice headings should be made, because the type of documentation and its contents will vary for different fund types. All members will have issue documents, such as a private placement memorandum; most (but not all) will produce annual reports, periodic statements and fact sheets, the contents of which will be governed by legal/regulatory requirements; most will maintain a website.

It is left to members' discretion as to where the best practice information is disclosed but the member's page of the AREF website should state where more detailed information on the fund can be obtained.

Compliance

The Code is split into two levels of compliance:

A MINIMUM COMPLIANCE

All members are expected to meet the minimum compliance standards.

B BEST PRACTICE

The Code also sets out recommended best practice, which members are encouraged to adopt wherever possible.

Additionally, compliance standards on certain topics are in the course of development but have not yet been finalised. These are indicated by the symbol **◆**. An up-to-date summary of these can be obtained from: info@aref.org.uk.

Compliance monitoring

- 1 The Management Committee expects AREF's members to meet the Code's minimum standards and will encourage them to meet its best practice standards.
- 2 Members should update their member's page at least annually (or more regularly as may be required) as to whether, and to what extent, they comply with the provisions of the Code, and the reasons for not meeting any of its minimum standards.

- 3 The Code Committee will monitor AREF's website and other published documents, and will identify members which have failed to:
 - disclose the minimum compliance matters and/or
 - confirm their compliance or otherwise with the minimum standards of the Code, and/or
 - provide reasons for any non-compliance within the past twelve months.
- 4 Member funds are encouraged to include in their annual statements a report on the extent to which they comply with the provisions of the Code including the reasons for not meeting any of its minimum standards. Reference should be made to the AREF website in this report.
- 5 The Code Committee will report the findings from their monitoring in 3 above to the Management Committee on a regular basis. Persistent non-compliance with minimum standards could lead to suspension from membership.

1 | Governance of the fund

1.1 Fund structure and objectives

A MINIMUM COMPLIANCE

1 Members should disclose:

- The fund type and structure
- Domicile
- In the case of a UK fund, whether it is authorised/unauthorised
- Whether the fund is closed-ended, open-ended or partially open-ended (see 3.1 below).

2 The following should also be disclosed:

- Investment objectives
- The policy for achieving the objectives
- Any investment restrictions
- Which types of investors are eligible to invest in the fund.

1.2 Management structure and accountability

A MINIMUM COMPLIANCE

- 1 Members should make available all fund documentation and details of key appointments to existing investors on request, (and to prospective investors on a confidential basis).
- 2 Members should disclose the names and addresses of the following as appropriate:
 - Members of the Committee of Management/supervisory board
 - General partners
 - Directors
 - Registrar
 - Banker
 - Manager
 - Trustee
 - Custodian
 - Auditor
 - Valuer
 - Managing agents
 - Solicitors to the fund
 - Investment adviser.

B BEST PRACTICE

The roles and responsibilities of all parties involved in running the fund, or who have the ability to set and implement policies or strategies relating to its management, should be clearly stated. An investor should be able to see clearly:

- the parties involved, how they are appointed and how they can be removed
- who is responsible for setting investment policy, strategy, restrictions and income distribution policy
- how such policies are agreed and can be changed
- a statement of the fund's objectives and agreed strategy or policies
- a statement of current restrictions and risk profile (e.g. amount invested in speculative development/limit on borrowing)
- who is responsible for implementing investment policy
- how adherence to such policies and restrictions are monitored and reported

- who is responsible for marketing the fund
- who is responsible for pricing and accounting for the fund
- who is responsible for providing all relevant information to valuers, managing agents and the team responsible for pricing the fund to allow them to perform their functions effectively
- whether appointments are fully discretionary, non-discretionary or advisory. If non-discretionary or advisory, where, ultimately, the decision-making power lies
- who is responsible for managing conflicts of interest
- who, ultimately, is responsible to the investors for the performance of the fund.

For those funds with a committee of management/supervisory board it is essential to define:

- their role in relation to the appointed manager
- their terms of appointment
- their accountability
- the voting system (i.e. disclosure of golden share arrangement).

1.3 Reporting

A MINIMUM COMPLIANCE

Each fund should:

- 1 Complete the quarterly IPD/AREF Pooled Property Questionnaire within a calendar month of the end of each quarter.
- 2 Disclose its SRI policy.
- 3 Ensure that the member's page on the AREF website is kept up-to-date including the information about meeting minimum compliance requirements.
- 4 Complete the quarterly questionnaire for inclusion in the IPD Property Fund Vision Handbook.
- 5 Ensure that any annual/periodic statements as required under legislative/regulatory requirements are completed in a timely fashion.

Any annual statement should incorporate a Manager's report including the following where applicable:

- the objectives of the fund
- the Manager's policy for achieving the objectives
- any investment restrictions
- procedure for management of conflicts of interest
- a review of the investment activities during the period under review
- a statement of any consolidation or subdivision of units any other significant information which should reasonably be disclosed to enable an investor to make an informed judgement on the development of the activities of the scheme during the period under review
- units awaiting creation/redemption, and in the case of redemptions, if any of these have been deferred (does not apply to closed-ended funds)
- details of any secondary market transactions
- changes in key personnel during the period under review.

Annual statements should also include a performance record in the format set out in Annex 1.

2 | Operating the fund

2.1 Valuations ♦

A MINIMUM COMPLIANCE

Disclosures should include a statement outlining:

- 1 The methodology used to value the property and other investments of the fund.
- 2 When these valuations are undertaken.
- 3 Where applicable, a statement that the basis for valuing a particular investment has changed since the previous periodic statement and the reasons why.
- 4 The frequency of valuations.
- 5 Where investments are shown in a currency other than the usual one used for valuation of the portfolio of the fund, the relevant currency exchange rates must be shown.

Other requirements

- 1 All property investments shall be valued at least quarterly to ensure funds are GIPPs compliant.
- 2 All investments must be valued on the same date, or on the best available date.
The valuation of any assets and dates of the valuations of any assets valued other than on the same date as the rest of the portfolio should be disclosed.
- 3 All valuations shall be carried out on a "Market Value" basis as defined in the RICS Appraisal and Valuation Manual (Red Book).
- 4 Any property investment held by the fund shall be valued as per definitions of bases of value in the RICS Red Book.

2.2 Cash and money market instruments

A MINIMUM COMPLIANCE

Disclosures should include a clear statement on the fund's cash restrictions, including the minimum/maximum percentage of NAV that the fund may hold in cash or money market instruments.

B BEST PRACTICE

Counterparty exposures for all financial counterparties (i.e. for cash, swaps, debt etc) should be disclosed in the annual report together with other financial risks such as foreign exchange. If possible these exposures should also be quantified at the balance sheet date.

2.3 Gearing ♦

A MINIMUM COMPLIANCE

- 1 Each fund must disclose its maximum permitted level of gearing.
- 2 All funds should disclose the total exposure to gearing (whether on or off balance sheet) as at the balance sheet date as compared to the maximum permitted level of gearing.

Gearing is defined as the level of each fund's net debt as a percentage of its net asset value where net debt equals borrowings less any cash balances held.

B BEST PRACTICE

Each fund should show:

- The amount of each variable rate loan and the interest rate terms
- The amount of each fixed rate loan, the interest rate and the date on which the loan is due for repayment, together with the cost of breaking the loan facility
- The amount of any interest rate swaps, the rate of the swap and the date on which the swap expires
- For each of the above, the name of the counterparty, the value of any security, and the market value
- The fund's proportionate share of the debt and cash of each of any collective investment scheme property
- Whether it has exceeded maximum permitted level of gearing.

The Committee recommends that:

- all financial instruments should be accounted for at fair value in accordance with the appropriate accounting standards adopted by the fund. In this way any hedging instruments will be marked to market and included within a fund's reported NAV.
- where a fund is exposed to fixed rate liabilities that are not accounted for at fair value as per above recommendation, there should be an appropriate adjustment made to the fund's pricing to reflect the fair value of such liabilities.

2.4 Use of derivatives

A MINIMUM COMPLIANCE

Members should disclose:

- 1 Whether they are authorised to use derivatives.
- 2 Whether they had a derivatives exposure at the date of their last property valuation.

B BEST PRACTICE

Members should disclose:

- 1 The maximum permissible derivative exposure.
- 2 The rationale for use of derivatives.
- 3 How and in what circumstances they would use derivatives.
- 4 The sector to which they relate.
- 5 The type of derivatives used.
- 6 The accounting policy adopted.

Disclosures should include a detailed statement on exposure to the property derivative market that outlines the:

- Contract size
- Contract duration
- Index
- Price
- Potential liability/profit

2.5 Distributions

A MINIMUM COMPLIANCE

- 1 Where applicable, members should disclose:
 - their policy for income and capital distributions
 - where it is their policy to distribute income:
 - the frequency of their distributions
 - requirements for withholding tax
 - the timing of the announcement of the amount of the distributions and the date on which the units/participations in the fund are declared “Ex” distribution
 - the expected timing of the payment of the distributions
- 2 Members should calculate their distribution yields by expressing the total distributions (gross of tax) per unit over the previous 12 months as a percentage of their net asset value per unit as at the end of the period.

B BEST PRACTICE

- 1 Quarterly distributions should be paid on fixed dates within two months of the end of the related accounting period.
- 2 Members should state whether they have the ability to defer/suspend distributions; if so any suspensions should be reported on a regular basis.

2.6 Management fees and other expenses

A MINIMUM COMPLIANCE

- 1 A statement should be made as to:
 - The annual fees payable to the manager/trustee/other related parties.
 - The basis on which the annual fees are payable (whether percentage of capital or income and actual percentage).
 - Details of performance fee or carried interest, where applicable, including how the fees are calculated and paid, and any clawback arrangements. Any fees which relate to but are not paid during the period should be estimated and accrued.
 - Any other fees payable to the manager/trustee/other related parties.
 - Where fee rebates apply (where one fund invests in another fund run by the same management company).
- 2 All members should comply with the AREF Guidance on Expense Ratios. This sets out recommended minimum disclosures for expense ratios based on NAV, and optional disclosures for ratios based on gross asset value ("GAV") as follows:

Item	% of NAV per annum	Disclosure requirement
(A) Fund Management Fees		Minimum Compliance for NAV, optional for GAV
(B) Fund Operating Expenses		As above
(C) Total Expense Ratio (TER) (A+B)		As above
(D) Property Expense Ratio (PER) (excludes items in TER)		As above
(E) Real Estate Expense Ratio (REER) (TER + PER)		As above
(F) Transaction Costs		As above
(G) Performance Fees		As above

For further information members should refer to the AREF Guidance as published on the AREF website: www.eref.org.uk/code.asp.

Additionally members are required to publish a portfolio turnover ratio, which indicates how much of the turnover in the portfolio has been driven by investment and withdrawals from the fund – for further details, see the AREF Guidance.

B BEST PRACTICE

- 1 Disclosures should include a statement of the fund's policy on which costs are:
 - paid from capital
 - paid from income

2.7 Insurance and service charge rebates

A MINIMUM COMPLIANCE

The policy on insurance and service charge rebates should be disclosed. Funds should clearly state where they have chosen to retain the commission and/or service charge rebates and amounts retained on a gross basis.

2.8 Disaster recovery

B BEST PRACTICE

The manager should have a disaster recovery plan in place to enable quick recovery and resumption of normal operations following an incident.

3 | Unit dealing and performance

3.1 Dealing (subscriptions and redemptions)

A MINIMUM COMPLIANCE

Closed-ended funds should disclose:

- 1 Launch date of the fund.
- 2 Minimum/maximum number of years remaining until liquidation of the fund.
- 3 Provisions for extending the life of the fund.
- 4 First liquidation date.
- 5 Provisions for equity-raising.

Open-ended funds (including partially open-ended funds) should disclose:

- 1 The subscription/redemption and pricing procedures in normal and extreme markets.
- 2 The fund's policy governing the issue of new units.

A **closed-ended fund** has a limited number of units. Units are rarely issued after the fund is launched and are not normally redeemable until the fund liquidates. It may be possible for investors to trade units on a secondary market and any such trades generally take place at a premium or a discount to the NAV of the fund.

An **open-ended fund** can issue or redeem units at any time in response to investor demand. Investors trade units directly with the fund itself at a price that varies directly in proportion to the NAV of the fund. The frequency and procedures for unit dealing vary from fund to fund. For the purposes of this Code a fund is open-ended if, in normal market conditions, investors can liquidate and receive settlement for their investment within six months of making a redemption request.

A **partially open-ended fund** is a fund where limited redemptions are permitted but which does not satisfy the above redemption condition for open-ended funds.

All references to open-ended funds in this document include references to partially open-ended funds.

B BEST PRACTICE

Disclosures should include a statement outlining:

- 1 The liquidity of the underlying investments within the portfolio, including the percentage of the fund invested in closed-ended structures, the terms for liquidation of those assets and consents required.
- 2 How the investors' waiting list is operated. Each fund is encouraged to adopt and publish an open and clear policy detailing their approach to managing the investors' waiting list for both subscriptions and redemptions.
- 3 How many redemption notices were received and not settled at the date of the report. Information should be presented in such a way that investors can clearly see the potential future liability of the fund.
- 4 Any suspension of valuations and/or redemptions.

3.2 Secondary market

B BEST PRACTICE

Details of any secondary market dealing in the fund's units should include:

- 1 Details of any firm acting as broker of secondary market trades in the units.
- 2 Commission payable on dealing where the manager acts as a broker.
- 3 Where the manager acts as a broker:
 - the system used to match units
 - the process for allocation of units to investors.

3.3 Unit turnover

A MINIMUM COMPLIANCE

Where applicable, disclosures should include a statement as to the total number of units:

- created
- redeemed
- transferred

in the last accounting period.

3.4 Investor analysis

A MINIMUM COMPLIANCE

The following information should be disclosed either in the banding set out below or as deemed appropriate to illustrate the profile of the beneficial ownership of the fund:

Ownership band	Number of beneficial owners	Total percentage holding
Less than 1% of the units in issue		
1% or greater but less than 2%		
2% or greater but less than 4%		
4% or greater but less than 8%		
Greater than 8%		
Total number of units in issue at the end of the period		
Percentage held by largest investor		

The disclosures should include an analysis of internal and external investors by:

- number of investors
- percentage of units held

Internal investors are those entities managed or controlled by companies within the same group as the promoter/investment manager or property advisor/manager of the fund.

3.5 Historical performance

B BEST PRACTICE

The investment performance of member funds should be calculated using the methodology described in the IPD UK Pooled Property Fund Indices and reported on that basis. Performance data should be disclosed as in Annex 1.

Where a fund is not a constituent of the IPD UK Pooled Property Fund Indices, its investment performance record should be substantiated by a named independent performance measurement service, or be confirmed by its auditors.

Membership of the IPD UK Pooled Property Fund Indices

Members are encouraged (subject to the index rules: www.ipd.com/OurProducts/Indices/IPDIndexGuide/tabid/935/Default.aspx) to become constituents of the IPD UK Pooled Property Fund Indices: those that do not participate should state their reasons. AREF members are expected to comply with the rules of the Indices. The Manager is accountable for the timeliness and accuracy of all data provided to IPD.

3.6 Fund benchmarks

A MINIMUM COMPLIANCE

Member funds are recommended to compare their performance against the relevant IPD UK Pooled Property Fund Index. Funds may choose to benchmark against an appropriate alternative index but should state their reasons for using that alternative index.

Each fund should use its benchmark consistently over time: a full explanation should be provided should it become necessary for a benchmark to be changed.

Annex | Performance data

A For open-ended funds:

A performance record over the last five annual accounting periods for units in each class of units in issue during each of those years detailing:

- 1 The highest issue price.
 - 2 The lowest cancellation price.
 - 3 The gross of tax net of expenses income distributed over the period (or, for accumulation units, allocated), taking account any sub-division or consolidation of units that occurred during that period.
 - 4 The Gross Yield (%), which is the gross of tax, net of expenses distribution for the last 12 months expressed as a percentage of the latest NAV¹.
 - 5 Time weighted, annualised performance for the three and five years to the end of the period under review.
 - 6 An appropriate analysis of performance, e.g. by location/property type.
-

As at the end of the last five annual accounting periods:

- 1 The total NAV of the scheme property at the end of each of those years.
 - 2 The NAV of each class of unit.
 - 3 The number of units of each class in existence or treated as in existence.
-

¹ The methodology in above applies a consistent approach to the calculation of income returns and current yields. Where funds quote current yields that may be published in the *FT* and elsewhere, these should similarly be calculated as the sum of the gross of tax, net of expenses income distributed over the previous 12 months expressed as a percentage of the current offer price.

B For closed-ended funds:

A performance record over the last five annual accounting periods for units in each class of units in issue during each of those years detailing:

- 1 The gross of tax net of expenses income distributed over the period (or, for accumulation units, allocated), taking account any sub-division or consolidation of units that occurred during that period.
 - 2 The Gross Yield (%), which is the gross of tax, net of expenses distribution for the last 12 months expressed as a percentage of the latest NAV¹.
 - 3 Time weighted, annualised performance for the three and five years to the end of the period under review.
 - 4 An appropriate analysis of performance, e.g. by location/property type.
-

As at the end of the last five annual accounting periods:

- 1 The total NAV of the scheme property at the end of each of those years.
 - 2 The NAV of each class of unit.
 - 3 The number of units of each class in existence or treated as in existence.
-

¹ The methodology in above applies a consistent approach to the calculation of income returns and current yields. Where funds quote current yields that may be published in the *FT* and elsewhere, these should similarly be calculated as the sum of the gross of tax, net of expenses income distributed over the previous 12 months expressed as a percentage of the current offer price.



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