

Guidance

Open End Vehicle Pricing Guidelines for AREF Members

Effective from:

**March
2025**

Introduction

Guidance objective

The Open End Fund Pricing Guidelines aim to provide managers and investors with:

- background information into the pricing of open end vehicles; and
- guidance in setting, managing and monitoring pricing policy through the life of a vehicle.

Application of guidance

Managers should utilise this guidance when setting and updating pricing policy. Managers should be transparent in the selection and application of pricing policy and regularly update investors on its performance.

AREF recognises that managers may not be able to implement this guidance for regulatory, strategic, operational or other reasons. Managers should be prepared to explain their approach to pricing.

Background to guidance

The Open End Fund Pricing Project was an industry-wide project conducted by AREF and INREV. The aim of the first phase, completed in July 2018, was to promote a better understanding of the effectiveness of the two principal types of pricing policies commonly in use, **classical dual pricing** and **capitalisation & amortisation**. The conclusion was that both methods were effective in minimising investor dilution but did not produce identical outcomes for investors.

In 2020, AREF and INREV launched the project's second phase to provide insight into the complexities around the pricing of institutional open end real estate vehicles. Following a consultation period, the recommendations were incorporated into these guidelines.

Key recommendations included:

- increasing the amortisation period for the capitalisation & amortisation approach; and
- reviewing/adjusting the bid-offer spread under dual pricing to accurately reflect transaction cost history over time.

INREV has mirrored these recommendations in its own guidelines.

Last review date

March 2025

If you have any questions regarding the guidance contained within this document, please email AREF at: info@aref.org.uk.

1. General

- 1.1 When creating an investment vehicle, or managing an existing investment vehicle, the manager is responsible for selecting the pricing policy. This should provide the fairest pricing outcome for investors and have due regard to the requirements of the target investor market.
- 1.2 Once the pricing policy has been determined, the manager should include details in the vehicle's constitutional documents and other relevant documents.
- 1.3 All information relating to the pricing policy should be written in language which is clear, fair and not misleading.
- 1.4 The manager should explain why the chosen pricing policy has been selected.
- 1.5 The accuracy of pricing assumptions and operation of the published pricing policy should be reviewed annually and pricing assumptions adjusted where necessary. This review should take place more frequently where needed.
- 1.6 Pricing should be adjusted to improve accuracy and fairness. Pricing should not be adjusted for other commercial reasons, such as managing capital inflows or outflows.
- 1.7 Constitutional documents should set out an investment vehicle's approach to situations that may result in the dilution of existing investors through, for instance, the absence of incremental transaction costs or any pre-emption rights being offered.
- 1.8 When a new capital raise is proposed by a manager at below the normal offer price, relevant disclosures should be provided to investors with sufficient notice to enable them to evaluate the implications. Generally, existing investors should have the right of first refusal, proportionate to their existing holding. If the capital raise target is not reached, third parties may then be invited to subscribe.
- 1.9 Managers should confirm the pricing policy to investors at least annually. Details of any material changes should be reported to investors on a timely basis.
- 1.10 For investment vehicles using a classic dual price model, the disclosures should include a three-year retrospective analysis of the effectiveness of pricing and highlight differences between historical, current and anticipated future transaction costs.
- 1.11 For investment vehicles using the INREV NAV, additional adjustments may be utilised to improve accuracy including:
 - amortisation periods;
 - performance fees;
 - future dividend payment calculations and all related deferred tax impacts on these adjustments; and
 - non-controlling interest effects.
- 1.12 Amortisation periods of setup, acquisition and financing costs should reflect the planned holding period of a vehicle. For evergreen vehicles, asset specific features should determine the amortisation period, or 10 years if this is not appropriate.
- 1.13 Performance fees should be accrued regularly and as soon as a reliable estimate is available.
- 1.14 For secondary market trading purposes, future distributions that are only attributable to shareholders pre-dating the INREV NAV calculation should be subtracted from the INREV NAV.
- 1.15 Adjustments made to INREV NAV should be disclosed to investors at least annually where it is used for pricing purposes. Clear differentiation should be made between INREV NAV and pricing NAV.
- 1.16 Managers should provide the same information to existing and potential investors when facilitating secondary market trades, subject to relevant confidentiality agreements.

2. Pricing in exceptional market circumstances

- 2.1 Managers should evaluate pricing and consider adjustments in exceptional market circumstances (e.g. market dislocation, disruption etc), to ensure there is no material transfer of value between remaining and exiting investors.
- 2.2 The terms of redemption penalties should be detailed in the vehicle's constitutional documents. Redemption penalties should not be used as a discretionary component of vehicle pricing adjustments in dislocated markets.
- 2.3 In exceptional market circumstances, regulator guidance on managing vehicles should take precedence over the stated pricing policy.
- 2.4 The vehicle's constitutional documents should include a pre-determined approach to enable the manager to take appropriate actions to amend pricing policies during periods of exceptional market circumstances. These provisions should be reviewed annually by the governing body of the investment vehicle board, including investors' representative body.

3. Pricing at the end of vehicle life

- 3.1 All A vehicle's constitutional documents should include provisions to enable the manager to take appropriate and predetermined actions to amend pricing policies when a vehicle is being put into liquidation. These should be reviewed regularly and amended as required to ensure the fair treatment of investors during the liquidation process.
- 3.2 A vehicle should be placed into suspension or deferral immediately prior to liquidation being proposed to investors and/or the investors' representative body, if any, in line with the investment vehicle's constitutional documents.
- 3.3 The costs of closing a vehicle should be borne by all investors and the pricing policy should be adjusted as necessary to reflect this.

4. Governance

- 4.1 Any Independent representatives should be appointed to:
 - review any proposed change to pricing models;
 - review and provide oversight of the operation and maintenance of pricing models; and
 - advise the governing body of the investment vehicle board on the merits and demerits of the existing or proposed pricing model. All necessary resources should be at the vehicle's expense.
- 4.2 Either investors that collectively represent at least 50% of shares in issue, or the manager, may propose a change in the pricing policy. Where a change is proposed, the manager should commit to a formal consultation process.
- 4.3 The manager should provide details of the consultation process which should be set out in the vehicle documentation. The manager should consult investors and their representative body on the proposed change in pricing policy. Investors should be provided with sufficient information prior to any vote.
- 4.4 Investors and prospective investors should be allowed adequate time to consider any proposed change to the pricing policy before an investor vote is held.
- 4.5 If the vehicle's constitutional documents are silent, a voting threshold of 75% of shares in issue is recommended to approve a change in pricing policy or move from one pricing model to another; otherwise, approval will be subject to the vehicle's usual voting threshold.
- 4.6 When a proposal is made to change a vehicle's pricing policy, investors should be provided with qualitative and quantitative analyses in sufficient detail to enable them to make an informed decision.

- 4.7 If a recommendation to change the pricing policy is not approved by investors, there should be a minimum three-year window before a new proposal is presented. The manager may propose a shorter period dependent on the market environment, regulations, investor base or other factors.

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