

## INREV Guidelines: Custom Build

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### Professional Standards

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# 0. INREV GUIDELINES INTRODUCTION

## 0.1. INTRODUCTION TO INREV GUIDELINES

GL01 INREV aims to improve transparency and promote best practice and professionalism in the sector. INREV members have encouraged and strongly supported the establishment of industry guidelines over the past few years and developed an integrated set of principles and recommendations including tools and examples and standardised templates for investors and investment managers of non-listed real estate vehicles. The objectives of the INREV Guidelines are:

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

The INREV Guidelines are presented in an online format, allowing visitors to easily navigate and search through and view tailored guidelines for example for open end funds.

It is possible to download a full version of the Guidelines or to create a custom version module by module in a PDF format in our Guidelines section.

The INREV Guidelines are organised into ten modules.



The Guidelines are embedded in an Adoption and Compliance Framework which allows investment managers and investors to evaluate their implementation of the INREV Guidelines, module by module. To determine ways of implementation and add a hierarchy to the guidelines' requirements and best practices it is important to understand the underlying terminology:

### Principles

Principles serve as a basis for the requirements and best practices.

### Best practices

Best practices have been developed by INREV to enable investors and investment managers to design vehicle products with an effective governance framework aligned with industry best practices and relevant to their specific needs. Investment managers should evaluate themselves, using the self assessment tool against such best practice frameworks and disclose their level of adoption.

### Standardised templates

The Due Diligence Questionnaires (DDQs) and the Standard Data Delivery Sheet (SDDS) are standardised templates that complement the INREV Guidelines but they are not part of its formal structure. These are used for information exchange between industry participants.

### Tools and Examples

Tools and examples are meant to assist in the application of the INREV Guidelines. Tools support market participants in assessing specific situations and in complying efficiently with the INREV Guidelines. Examples serve as a pattern to be followed by market participants to illustrate a certain standard.

## Definitions

INREV definitions ('Global Definitions') were developed to achieve consistency of meaning and terminology within the non-listed real estate industry. Global definitions are being created via the collaboration with the NCREIF PREA Reporting Standards and can be found in the [Global Definitions Database](#). They are gradually replacing the INREV Definitions.

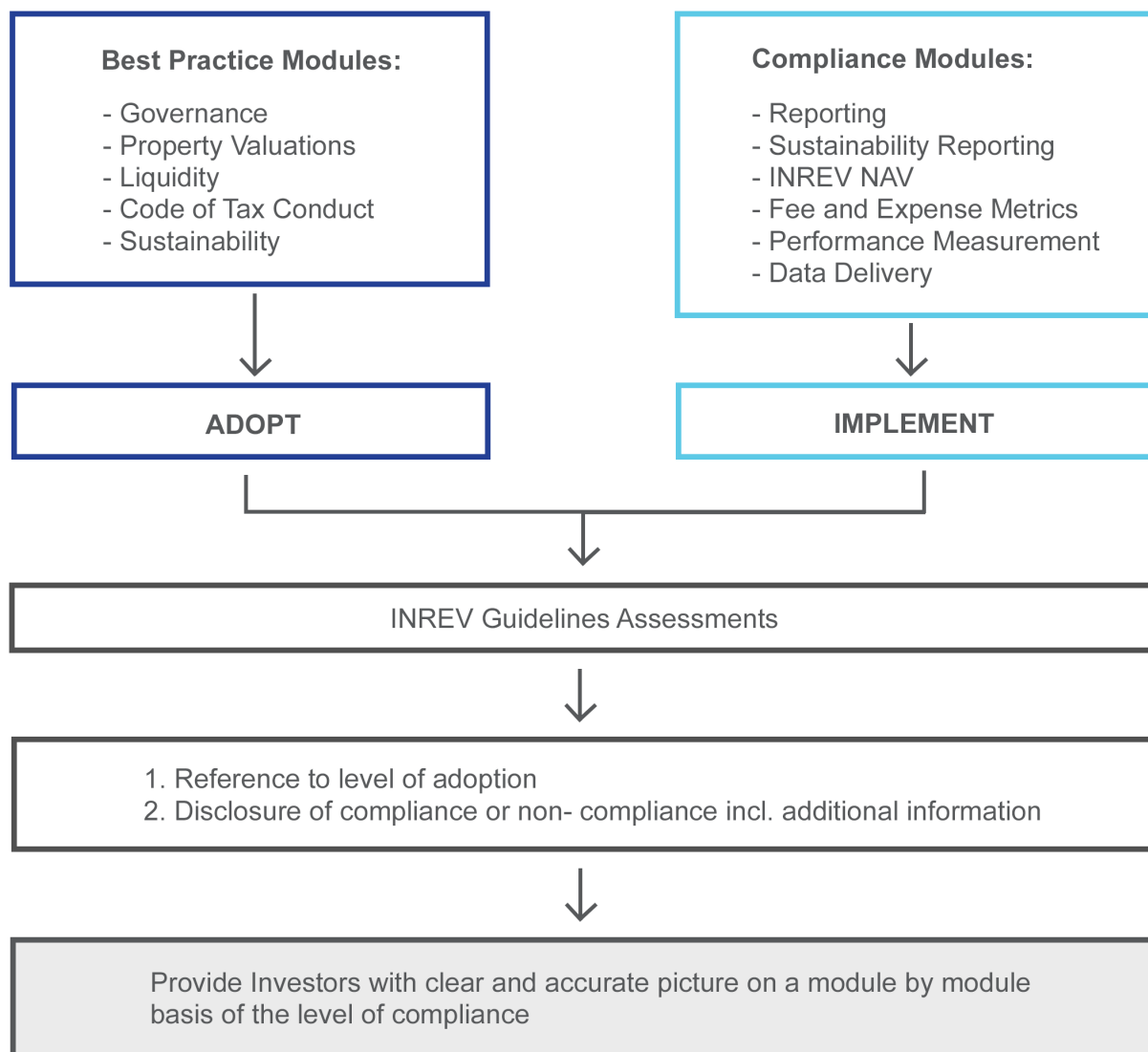
## 0.2. ADOPTION AND COMPLIANCE FRAMEWORK

GL02 The INREV Guidelines are designed for non-listed real estate vehicles for institutional investors. Since non-listed vehicles can differ considerably, INREV provides a modular approach for investors and managers to agree on an appropriate level of adoption of INREV best practices and in deciding on the level of compliance with INREV requirements for individual modules.

INREV's best practice frameworks developed for the modules of Governance, Liquidity, Property Valuation, Tax Conduct and Sustainability, are qualitative in nature and individual vehicles will adopt them in different ways. INREV's objective is to ensure that investors are provided with a clear and accurate description of these modules.

In contrast to best practices, INREV's requirements in the modules covering Reporting, including Sustainability reporting, Performance Measurement, INREV NAV, Fee and Expense Metrics and INREV Data Delivery, are more technical in nature. These requirements leave no room for different interpretation: the requirements are either followed, or not. Additionally, in the Reporting module, Performance Measurement module and Fee and Expense module, some of the INREV Guidelines are recommendations rather than requirements. Although INREV would encourage members to follow such recommendations, they are not mandatory to claim full compliance with the respective modules.

The INREV Guidelines Assessments have been developed to assess the level of compliance with the INREV Guidelines. If all of the requirements for an individual module are fully implemented, the manager can disclose full compliance with the relevant module. If the requirements of a module are not fully met, the manager should disclose that the vehicle does not fully comply with that module of the INREV Guidelines and state the reasons for deviation including any additional information relevant to investors.



In all cases, investment managers should present investors with a clear and accurate picture of the level of compliance with the INREV Guidelines. The level of adoption and compliance with the INREV Guidelines is a matter to be discussed during the launch process of the vehicle. The vehicle documentation should describe, on a module by module basis, the extent to which the vehicle aims to be in compliance with INREV Guidelines.

INREV does not provide any assurance on the degree of adoption of best practices or on the level of compliance with requirements for individual vehicles.

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

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

### 0.2.1. BEST PRACTICE MODULES

COMPLIANCE OBJECTIVE	SELF-ASSESSMENT PROCESS	DISCLOSURE	OVERSIGHT AND ASSURANCE
<b>Module 1. Governance</b>			
Managers should evaluate the level of adoption of INREV best practices using the Governance INREV Assessment Tool.	Managers and investors should refer to and consider adopting INREV Governance best practices when designing and implementing an oversight framework for a specific vehicle.	Managers should describe in their annual report and vehicle documentation their governance practices and the degree to which they adopt INREV best practices.	Management and non-executive officers should review the adequacy of the description of the governance framework.
<b>Module 3. Property valuation</b>			
Managers should follow the valuation best practices when determining the fair value of the property portfolio and prepare required disclosures to investors.	Managers should evaluate the level of adoption of INREV property valuation best practices.	Managers should describe their property valuation policies and the degree to which they have adopted INREV valuation best practices in their annual report and vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the property valuation best practices.
<b>Module 7. Liquidity</b>			
Managers and investors should refer to and consider adopting INREV liquidity best practices when designing non-listed vehicle products.	Managers should evaluate, using the Liquidity Guidelines Assessment, the level of adoption of INREV liquidity best practices.	Managers should describe their liquidity policies and the degree to which they have adopted INREV best practices in their annual report and vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of adoption with the liquidity best practices.
<b>Module 9. Code of Tax Conduct</b>			

Managers should evaluate their level of adoption of Code of Tax Conduct best practices when examining their own tax policies and practices.	Managers and investors should refer to and consider adopting Code of Tax Conduct best practices when designing and implementing an oversight framework for a specific vehicle.	Managers should describe in their annual report and vehicle documentation their practices referred to in the Code of Tax Conduct and the degree to which they adopt INREV best practices.	Management and non-executive officers should review the adequacy of the description of the Code of Tax Conduct framework.
<b>Module 10. Sustainability</b>			
Managers should evaluate the level of adoption of INREV best practices using the Sustainability INREV Assessment Tool.	Managers and investors should refer to and consider adopting INREV Sustainability best practices when designing and implementing an oversight framework for a specific vehicle.	Managers should describe in their annual report and vehicle documentation their sustainability practices and the degree to which they adopt INREV best practices.	Management and non-executive officers should review the adequacy of the description of the sustainability framework.

## 0.2.2. COMPLIANCE FRAMEWORK

GL04

<b>COMPLIANCE OBJECTIVE</b>	<b>SELF-ASSESSMENT PROCESS</b>	<b>DISCLOSURE</b>	<b>OVERSIGHT AND ASSURANCE</b>
<b>Module 2. Reporting</b>			
Managers should make disclosure corresponding to all relevant INREV reporting requirements and recommendations as a component of their annual or interim reports to investors.	Managers should evaluate the level of compliance with INREV requirements and recommendations, using the Reporting Guidelines Assessment.	Managers should include all information corresponding to applicable INREV reporting requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with reporting requirements. Auditors could give negative assurance on the degree to which INREV reporting requirements and recommendations are complied with.
<b>2.1 Sustainability Reporting</b>			

Managers should make disclosure corresponding to all relevant INREV sustainability reporting requirements and recommendations as a component of their annual or interim reports to investors.	Managers should evaluate the level of compliance with INREV requirements and recommendations, using the Reporting Guidelines Assessment.	Managers should include all information corresponding to applicable INREV sustainability reporting requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with sustainability reporting requirements. Auditors could give negative assurance on the degree to which INREV sustainability reporting requirements and recommendations are complied with.
<b>Module 4. Performance Measurement</b>			
Managers should disclose all relevant INREV performance measures in accordance with performance measurement requirements.	Managers should evaluate the level of compliance with INREV requirements and recommendations.	Managers should include all information corresponding to applicable INREV performance measurement requirements and recommendations in their annual and interim reports.	Management and non-executive officers should review the adequacy of the compliance disclosure to investors summarising the level of compliance with performance measurement requirements. Auditors could give negative assurance on the degree to which INREV performance measurement requirements and recommendations are complied with.
<b>Module 5. INREV NAV</b>			
Managers should calculate and disclose an INREV NAV in accordance with INREV requirements.	Managers should evaluate the level of compliance with INREV NAV requirements, using the INREV NAV Guidelines Assessment.	Managers should include the INREV NAV in their annual and interim reports along with required disclosures. Vehicle documentation should include the required information.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with INREV NAV requirements. Depending on circumstances, auditors can give assurance or negative assurance on the INREV NAV and level of compliance with related disclosure requirements.
<b>Module 6. Fee and expense metrics</b>			



Managers should calculate and disclose fee and expense metrics in accordance with fee and expense metrics requirements.	Managers should evaluate the level of compliance with INREV fee and expense metrics requirements using the INREV Fee and Expense Metrics Guidelines Assessment.	Managers should include information corresponding to INREV fee and expense metrics requirements in their annual reports and in the vehicle documentation.	Management and non-executive officers should review the basis and adequacy of disclosure to investors summarising the level of compliance with fee and expense metrics requirements. Auditors could give negative assurance on the level of compliance with fee and expense metrics requirements.
<b>Module 8. INREV data delivery</b>			
Managers should provide information to INREV in accordance with INREV data delivery requirements.	Managers should evaluate the level of compliance with INREV data delivery requirements.	Managers should provide INREV with all relevant information corresponding to INREV data delivery requirements.	Management and non-executive officers should review the basis and appropriateness of the compliance with INREV data delivery requirement disclosure to INREV.

### 0.3. REVISION AND CHANGE PROCEDURE

GL05 Since the launch of the Guidelines, INREV received a growing number of questions and comments from members and non-members regarding their interpretation, adoption and implementation. A document below describes the change procedure for updates to the INREV Guidelines.

- [Download the INREV Guidelines Revision and Change Procedure](#)

GL06 A major revision of the INREV Guidelines was performed during 2021-2022.

**Reporting:** Update done in January 2023 to reflect the latest developments including regulatory reporting and investor requirements and to align with the updates in other INREV modules [INREV Reporting Guidelines Change Log 2023](#).

**Property Valuation:** Update done in January 2023 to reflect the latest market practices and regulatory requirements, to enhance the governance and oversight aspects and to ensure further transparency of sustainability inputs in the valuation process [INREV Property Valuation Guidelines Change Log 2023](#).

**Sustainability:** Added in January 2023.

**Governance:** Update done in January 2022 to reflect the current functions, organisations and roles within an investment vehicle, in line with the latest regulations in today's market [INREV Governance Guidelines Change Log 2022](#).

**Performance Measurement:** Updated done in January 2022 to provide clarifications of the description of

assumptions and to enable a more detailed performance analysis [INREV Performance Measurement Guidelines Change Log 2022](#).

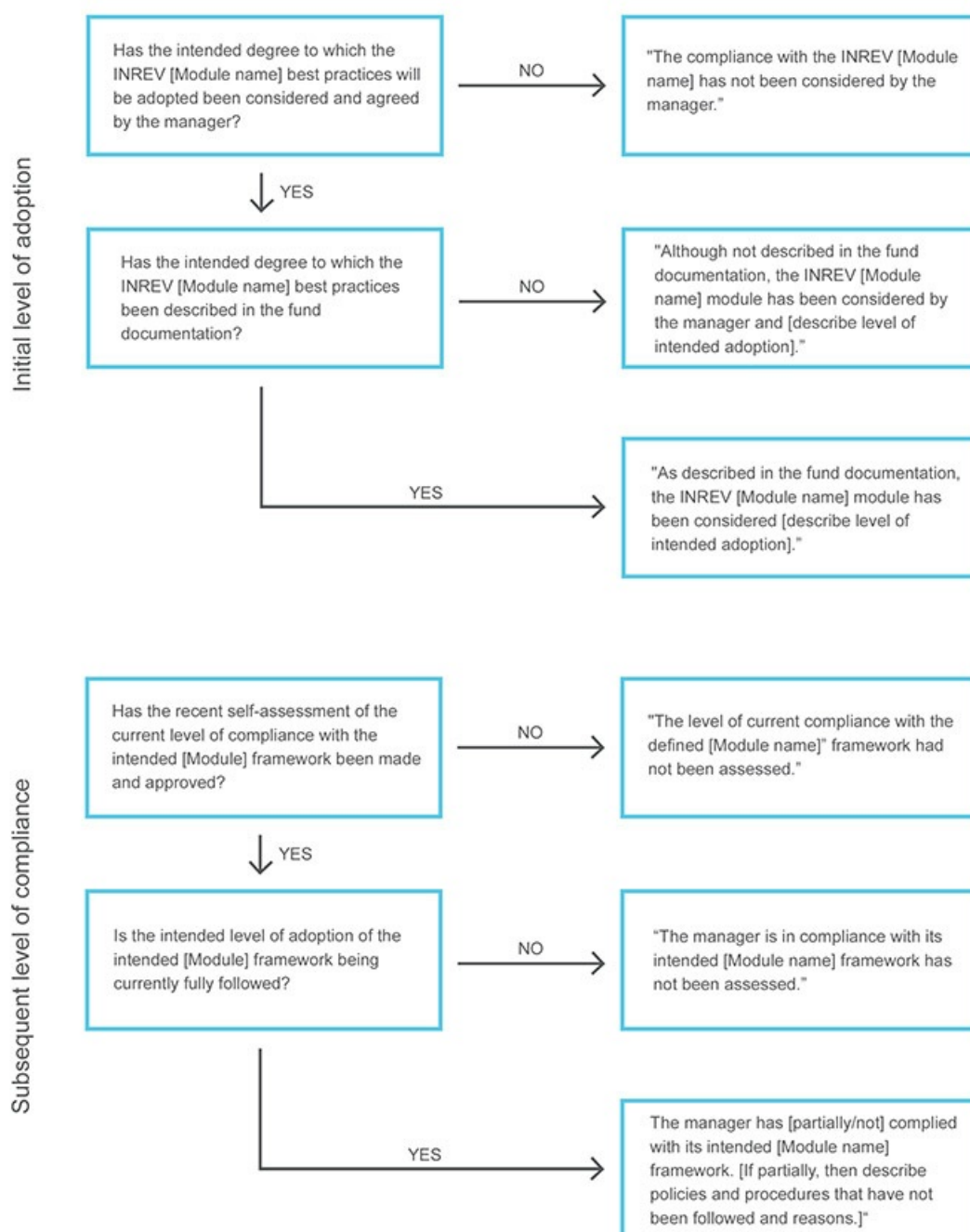
**Code of Tax Conduct:** Added in January 2021

**Fee and Expense Metrics:** Update done in March 2020 to replace TER by the TGER

#### 0.4. TOOLS AND EXAMPLES

GL07 **Example - Statement of level of adoption of INREV Guidelines**

## Best practice modules



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

MODULE	GUIDELINES	LEVEL OF ADOPTION OR COMPLIANCE

1	Governance	Although not described in the vehicle documentation, the INREV Governance module has been considered by the manager. The intended framework partially complies with the INREV governance best practices. All best practices have been adopted except for the fact that investors are not able to terminate the contract of the manager without cause. The vehicle formally assessed at the end of the financial year that it is currently following its intended governance framework.
2	Reporting	Although not detailed in the vehicle documentation, the INREV reporting module has been considered by the manager. The manager has complied with all the requirements of the INREV reporting module.
2.1	Sustainability Reporting	Although not detailed in the vehicle documentation, the INREV sustainability reporting requirements have been considered by the manager. The results of the INREV Guidelines assessment show that the manager has complied with all the requirements of the INREV sustainability reporting guidelines.
3	Property valuation	As described in the vehicle documentation, the INREV property valuation framework module has been considered. The manager has defined a valuation framework which fully adopts INREV valuation best practices. The level of current compliance with the defined valuation framework was last formally assessed during the financial year when it was determined that the vehicle was in compliance with all elements of the intended valuation framework.
4	Performance Measurement	The manager has disclosed all relevant INREV performance measures in accordance with the requirements of the INREV Performance Measurement module.
5	INREV NAV	The manager has complied with all the requirements of the INREV NAV module, except for the fact that assumptions used to determine the fair value of deferred taxes are not fully disclosed for confidentiality reasons.
6	Fee and expense metrics	As described in the vehicle documentation, the INREV fee and expense metrics framework module has been considered. The manager has fully complied with the requirements and recommendations of the INREV fee and expense metrics module.
7	Liquidity	As described in the vehicle documentation, the INREV liquidity framework module has been considered. The manager has defined a liquidity framework which fully adopts INREV liquidity best practices. The manager formally assessed in at the end of the financial year that it currently follows the defined liquidity framework.

8	INREV data delivery	The manager is in compliance with the INREV data delivery module.
9	Code of Tax Conduct	Although not described in the vehicle documentation, the INREV Code of Tax Conduct module has been considered by the manager. The intended framework complies with the INREV Code of Tax Conduct best practices. All best practices have been adopted. The vehicle formally assessed at the end of the financial year that it is currently following its intended Code of Tax Conduct framework.
10	Sustainability	Although not detailed in the vehicle documentation, the INREV sustainability framework module has been considered by the manager. The intended framework partially complies with the INREV sustainability best practices. All best practices have been adopted except for the fact that the manager has not built a process to manage ESG impact in its supply chain. The manager formally assessed in at the end of the financial year that it currently follows its intended sustainability framework.

As described in the vehicle documentation the results of the INREV Guidelines Assessments should be disclosed in investor reporting.

Extract "INREV Guidelines Compliance Statement" from results page of the INREV Guidelines Assessments.

Copy + paste the following example statement into your annual and interim reports

#### **INREV Guidelines Compliance Statement - Example purposes only**

The European Association for Investors in Non-Listed Real Estate Vehicles (INREV) published the revised INREV Guidelines incorporating industry standards in the fields of Governance, Reporting, Property Valuation, Performance Measurement, INREV NAV, Fees and Expense Metrics, Liquidity and Sustainability. The Assessments follow these guidelines.

INREV provides an Assessment Tool to determine a vehicle's compliance rate with the INREV Guidelines as a whole and its modules in particular.

**THE OVERALL INREV GUIDELINES COMPLIANCE RATE OF THE EXAMPLE VEHICLE IS 92.75%, BASED ON 9 OUT OF 9 ASSESSMENTS**

The compliance rate for each completed module is:

- Reporting Guidelines is 92.53%, based on 211 / 252 questions applicable.
- Property Valuation Guidelines is 94.35%, based on 48 / 54 questions applicable.
- INREV NAV Guidelines is 97.5%, based on 30 / 42 questions applicable.
- Liquidity Guidelines is 93.67%, based on 31 / 39 questions applicable.
- Sustainability Guidelines is 88.34%, based on 20 / 22 questions applicable.
- Governance Guidelines is 97.44%, based on 84 / 100 questions applicable.
- Fee and Expense Metrics Guidelines is 96.35%, based on 10 / 15 questions applicable.
- Performance Measurement Guidelines is 88.35%, based on 38 / 42 questions applicable.
- Code of Tax Conduct Guidelines is 89.5%, based on 30 / 41 questions applicable.



## 7. LIQUIDITY

### 7.1. INTRODUCTION LIQUIDITY

#### How do you comply?

The Liquidity module is a best practice module:

Best practice modules	Compliance modules
Define an appropriate governance framework and related roles and responsibilities	Define the calculation and disclosure of quantitative measures
Identify and describe industry best practices	Identify a framework of required disclosures
Require an annual self assessment of the adopted framework deemed relevant to the vehicle	Compliance is entirely objective

Read more at [INREV Adoption and Compliance Framework](#).

LQ-I01 INREV's objective is to ensure all investors fully understand the liquidity rights that they have when investing into a vehicle and to establish common standards of behaviour among managers and investors in non-listed real estate vehicles in the context of the exercise of liquidity rights.

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

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

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

#### Relationship with other INREV products

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

- Governance guidelines;
- Reporting guidelines.

## 7.2. PRINCIPLES

**LQ-P01** The vehicle documentation should clearly explain the liquidity rights of the investor. The way equity (or debt investment) is subscribed to and redeemed from a vehicle has a material impact on the interests of new and existing investors. Overseeing the establishment of a fair liquidity mechanism and the disclosure of it to investors should be one of the objectives of a vehicle's corporate governance activities. In some jurisdictions and in relation to certain vehicle structures the mechanism is prescribed by legislation or government regulations. In these cases, full disclosure of the rights, obligations and process should still be considered best practice to ensure the vehicle is suitable for the investor.

**LQ-P02** The terms and pricing of a new equity (or debt) issue should be fair to both new and existing investors. Where this is not possible and a conflict of interest exists, the manager should fully explain the issues and impact on the respective investors' interests.

**LQ-P03** Investors should, where possible, have the right to transfer their interests in non-listed real estate vehicles without unreasonable restrictions if it does not prejudice the manager or other investors.

**LQ-P04** Constitutional documents should provide a clear legal and regulatory framework as to how such secondary transfers should be conducted.

**LQ-P05** Confidentiality arrangements in vehicle documentation should not, where possible, prevent the development of secondary market transactions.

**LQ-P06** Potential new investors ideally should have access, subject to signing a standard non-disclosure agreement, to the same information as existing investors with respect to the vehicle's constitution, activities and performance. Additional information may be provided, subject to consent, but is not required by these guidelines.

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

Investors' register (number of investors, largest investors, investors managed by the manager or external investors, etc.);

Unit issue/redemption disclosures (typically disclosed in the vehicle's financial statements);

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

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



regarding confidentiality requirements can be found in 4.3.7.

**LQ-P07 Management decisions (both asset and fund management related) throughout the life of the vehicle should be mindful of the vehicle termination date.**

**LQ-P08 The overriding assumption on any vehicle is that the vehicle will wind up within the length of the vehicle life as stated in the vehicle documentation. Any derogation from this assumption needs to be agreed by investors, with dissenting investors given the option to exit.**

**LQ-P09 Investment managers and investors should fully engage in any consultation process and ensure communication, transparency and timeliness.**

### **7.3. GUIDELINES**

#### **7.3.1. FUND DOCUMENTATION REQUIREMENTS FOR LIQUIDITY FRAMEWORK**

**LQ01 The vehicle's constitutional and marketing documentation should include liquidity rights of the investor and how and when to execute these rights, in both normal and exceptional circumstances, as well as detailed consideration of the exit strategy, and existing redemption arrangements.**

**LQ02 The fund documentation should include a liquidity protocol document explaining how all investors will be treated in different liquidity events including new equity (or debt) issues, redemptions, secondary market transfers and exit. This document should be reviewed and updated throughout the life of the vehicle and made available to both existing and prospective investors.**

**LQ03 The vehicle's constitutional documents should include a statement of risk factors relating to liquidity. These should include as a minimum an analysis of the potential impact on the investors' interest if the manager exercises its rights in full to either defer payment or adjust the price payable on redemption. For open end vehicles the risks associated with the vehicle not reaching the optimal size should be clearly set out, with particular reference to the impact on portfolio construction and any liquidity events.**

**LQ04 Investment managers should ensure that all documentation relating to liquidity is fit for purpose.**

**LQ05 Investors should ensure they fully read all relevant vehicle documentation and material provided as part of the liquidity process.**

### 7.3.2. ISSUES OF VEHICLE EQUITY (OR DEBT INVESTMENTS)

**LQ06 Within any subscription agreement signed by investors when entering the vehicle, there should be a specific acknowledgement that they fully understand the liquidity restrictions in the fund documentation which should be written in a clear and comprehensive manner.**

**LQ07 For open end vehicles the timing for issuance and redemption of units should reflect the independent valuation cycle for the assets.** This will help to ensure that all investors are treated fairly.

**LQ08 Any adjustment to the basis of valuation adopted by the manager which impacts the price of subscription or redemption should be disclosed to all investors in the vehicle documentation, including the rationale for the adjustment.**

**LQ09 The pricing mechanism for the issue of new units should, subject to local laws and regulations, be fair to all investors and be clear and unambiguous.**

**LQ10 New issues should be based on a price determined using an up-to-date independent valuation of the underlying real estate assets and an up-to-date assessment of all other assets and liabilities of the vehicle.**

**LQ11 Any special assumptions used by either the manager or the independent valuer should be disclosed to all parties.**

**LQ12 The manager should maintain its anti-money laundering or “know your client” requirements for each type of investor that may subscribe to the vehicle.** This should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle (including trustees, depositories and administrators).

**LQ13 The issue of new equity (or debt investments) into a vehicle would normally be based on either the NAV at the time or at cost with a form of equalisation payment from those investors who commit after the first close of the vehicle.**

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

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

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

## Related Tools & Examples

- [INREV Pillars to Ensure Open End Fund Liquidity](#)

### 7.3.3. REDEMPTIONS OF EQUITY (OR DEBT INVESTMENTS)

**LQ14 The manager should regularly advise investors of the redemption process, including the notice periods, redemption dates, pricing policy and timing of payments.**

**LQ15 The manager should be required to disclose any rights it has to use discretion in setting the redemption price or the assumptions adopted by others in key components of the redemption price (e.g., property valuation).** Any changes to normal practice as a result of the exercise of these rights should be communicated to investors without delay and including the rationale.

**LQ16 The manager should be under an obligation to disclose all its rights to defer payment of redemption proceeds.** In circumstances in which such rights are exercised, the manager should communicate this to the redeeming investors without delay and provide reasons.

**LQ17 In the event a manager exercises its rights to either defer payment or materially amend the expected redemption price, the redeeming investors should have the right to withdraw their redemption request within a defined period.**

### 7.3.4. SECONDARY MARKET TRANSFERS OF EQUITY (OR DEBT INVESTMENTS)

**LQ18 The manager should document a policy on secondary transfers setting out which factors it will take into account when considering any transfer request.** The policy should explain how fairness to all investors is achieved, including how any potential conflicts between primary and secondary issues are dealt with.

**LQ19 The manager should identify their anti-money laundering or “know your client” requirements for any potential investor.** This should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle (including trustees, depositaries and administrators).

**LQ20 The manager should state within the constitutional documents if a confidentiality agreement is required for the release of information to a third party (including potential investors, placement agents and third party trading platforms) and, if so, the manager should make a standard confidentiality agreement available for the respective parties’ use at all times.** A clear definition of “qualifying investor” should be incorporated into the constitutional documents identifying any specific restrictions in respect of domicile, financial strength, type of investor (e.g., any restrictions on competitors), minimum or maximum holding.

**LQ21 If pre-emption rights for holders are required by the founding investors, they should be drafted on the basis of a right of first refusal during a limited period from service of notice.** In the event that investors choose not to exercise their rights, the selling investor should be free to sell its interest in the open market, within an agreed range of the original offer price during an agreed period.

**LQ22 A draft transfer agreement should be provided at launch, incorporating the minimum representations and warranties required from the relevant parties on any transfer, subject to any variations reasonably required by the manager from time to time.** It is acknowledged that the final form of transfer agreement will be negotiated by all parties including the buyer, selling investor and the manager.

**LQ23 Investors should carefully review the constitutional documents and the liquidity protocol document or section to ensure that both documents suit their needs.**

**LQ24 The non-executive or compliance officer, if any, should oversee the establishment of a fair pricing mechanism for the issue and redemption of units and an appropriate secondary market transaction framework.**

**LQ25 The manager should maintain an up-to-date protocol on liquidity mechanisms for the vehicle including its policy on secondary transfers.** The policy should explain what services the manager will perform in relation to any secondary transfers and any fees or expenses to be charged by the manager or the vehicle. It should also state how the manager will interact with any placement agent appointed by the selling holder and any third party trading platform.

**LQ26 The manager should facilitate secondary trading by its existing investors (whether the trade is executed by the manager, via a broker or otherwise) by:**

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

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

valid circumstances. These could include:

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

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

**LQ27 The selling investor should be able to communicate with potential investors, subject to certain consents and indemnifications:**

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

**LQ28 The manager should take specific steps when facilitating or arranging secondary trading in the manager's vehicle:**

- inform all holders of the services that it is willing to provide for facilitating a secondary market in the vehicle and the fees charged for these services;
- publish a policy statement on secondary transfers setting out what factors it will consider when considering any transfer request. For [open end vehicles](#) the statement must explain how fairness to all investors is achieved, including how any conflicts between primary and secondary issues are dealt with. This should be readily available to existing and potential investors at all times;
- provide potential investors with reasonable access to its staff to explain the strategy of the vehicle and to arrange access to properties where appropriate subject to reimbursement of appropriate costs;
- advise the seller if any potential investor or group of potential investors would be considered unacceptable as a qualifying investor if requested to do so;
- provide a standard confidentiality agreement which it finds acceptable on request or, if appropriate, provide input into a confidentiality agreement prepared by the selling investor. The manager shall act reasonably in dictating the terms of any such agreement;
- maintain a statement of anti-money laundering requirements identifying the information required from any new investor or transferee. The statement should reflect the requirements of all those regulated bodies involved in the administration or management of the vehicle, such as trustees and administrators, to

ensure that the requirements are comprehensive;

- treat all information provided to it on potential investors as confidential and not disclose it to any third party without consent unless required to do so by law;
- take all reasonable steps to ensure that the register of investors is updated without delay once in receipt of all valid documentation.

**LQ29 The compliance officer should oversee the activities of the manager in relation to secondary market transactions, to ensure they are in compliance with the law and constitutional terms of the vehicle.**

**LQ30 The selling investor should:**

- inform the manager of its intention to market its interest or part of its interest in the vehicle;
- prior to commencing any marketing of an interest in a vehicle, review the constitutional documents to ensure it is fully aware of its rights and obligations;
- consult with the manager on the acceptability of potential investors at an early stage;
- investigate fully any selling restrictions imposed in any jurisdiction in which it intends to sell;
- ensure that any advisers instructed to act as placement agents on its behalf are properly authorised to act in that capacity in the countries in which the selling investor intends to market its interest;
- ensure that any marketing material used for the sale of its interest and any distribution of the material is in accordance with the terms of the vehicle's constitution and all relevant regulatory requirements;
- take all reasonable steps to restrict the marketing of its interest to "qualifying investors" as defined in the vehicle's constitutional documents;
- in any public statements regarding the sale, make it clear that it is speaking in its capacity as an investor and its comments do not necessarily reflect the views or beliefs of the manager and other investors.

### **7.3.5. VEHICLE WINDING UP**

**LQ31 The manager should seek to mitigate the scale and duration of any ongoing liabilities when making management decisions towards the end of the vehicle life so that all underlying vehicle entities can be wound up as early as is reasonably possible.**

**LQ32 The manager should keep investors advised of any ongoing liabilities once assets are sold and the impact on the timing of the ultimate winding up of the vehicle.** Ongoing liabilities should be reported as a percentage of capital commitments to each project and in aggregate.

**LQ33 The manager should limit the amount of capital that can be recalled by the manager once distributed to investors.** The period in which the capital can be recalled should also be limited in time and clearly disclosed in vehicle documentation and reports.

**LQ34 The manager should keep investors regularly advised on the level of callable capital and the manager's expectations for its use.**

**LQ35 Any investment restrictions imposed on a closed end vehicle should cease to apply during the liquidation phase of the vehicle.**

**LQ36 During the vehicle wind-up process, any conflicts should be declared by the conflicted party at the earliest opportunity.** If the conflict occurs because of the sales process, the investment manager should ensure an independent representative is involved, investor agreement is reached and valuations properly reflect market conditions. When a portfolio is to be sold and the investment manager potentially retained by the buyer, two deal teams should be created by the investment manager with 'Chinese walls' in place and senior representation on each team.

**LQ37 During the vehicle wind-up process, asset management and wind-up fees earned by the investment manager or involved third party should adequately reflect the amount of work involved.** For example, any fixed fee asset management arrangement should be adjusted if few assets remain.

#### **7.3.6. VEHICLE LIFE EXTENSIONS**

**LQ38 The vehicle's constitutional documents should state the rights and obligations of unit holders and the manager regarding extensions (e.g., investor approval rights and changes to management fees during an extension period).**

**LQ39 Where the manager has discretion to extend the vehicle life, the manager should disclose in the annual and quarterly reports well in advance whether it believes such an extension will be necessary.**

**LQ40 If the manager elects to extend the life of the vehicle, the manager should provide a clear business case, including the financial benefits to the investors expected from doing so.**

**LQ41 Where the manager wishes to extend the vehicle term with the consent of its investors, the manager should provide the following information to all investors:**

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

**LQ42 Investors should have the right to appoint advisors to act for them jointly at the vehicle's cost.** Appointments are to be approved by the Investment Advisory Committee (IAC) or a majority of investors if there is no IAC.

**LQ43 In the event the vehicle life is extended beyond the original term, best practice is for the manager's appointment to be terminable without cause with the approval of a supermajority (usually 75%) of investors at any time after the original term.**

### **7.3.7. REPORTING REQUIREMENTS**

**LQ44 In quarterly and annual reports to investors, the manager should provide data on the vehicle's equity (or debt investments) and on key risks related to liquidity:**

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

**LQ45 The managers should advise all investors of the risks that any one investor, or a group of investors controlled by one decision-maker/adviser, may gain negative control over key decisions of the vehicle.**

### **7.3.8. CONSULTATION PROCESSES FOR VEHICLE WIND UP OR EXTENSION**

**LQ46 If appropriate, the investment manager should provide vehicle extension proposals as soon as it becomes clear that an extension may be required, and in any event a minimum of one year prior to the original vehicle termination date.**

**LQ47 If appropriate, the investment manager should provide appropriate notice of the decision to wind up a vehicle to investors, no later than one year before the end of the vehicle life but ideally two years.**

**LQ48 The investment manager should provide a clear timetable for any wind-up or extension process.** The timetable should be part of the vehicle documentation and include a set of procedures for the investment manager and investors to follow during the entire wind-up or extension process. Details of any information provided by the investment manager to investors should also be disclosed.

**LQ49 The investment manager should allow investors a minimum period of eight weeks to consider proposals prior to a formal vote.**



**LQ50 Investors should respond fully to any proposals within the timeframe provided.**

**LQ51 Both investment manager and investors are obliged to ensure adequate senior management time is given to the end of vehicle life process.** Managers and investors should also ensure that those involved are actively engaged in the consultation process. Where possible, an alternative senior manager (appropriately experienced) is responsible for the extension process rather than the individual investment manager.

**LQ52 An investor should have a consistent, documented house view of a vehicle shared by all personnel involved to avoid last minute difficulties.**

**LQ53 At the end of the vehicle's life, it is recommended an investor advisory committee be put in place, if it does not already exist, to participate in the wind-up or extension process.**

**LQ54 The investment manager should be prepared to wind up the vehicle if agreement on an extension cannot be reached.**

## **7.4. TOOLS AND EXAMPLES**

### **LQ-T01 Related Tools & Examples**

- [Liquidity Tutorial](#)
- [Liquidity Module - Examples](#)