AIFMD & Real Estate

Impact of AIFM Directive on real estate fund managers and on the transparency of the real estate investment market

Graduation Thesis
Lieske van Pelt
COLOPHON

AIFMD & Real Estate
Impact of the AIFM Directive on real estate fund managers and on the transparency of the real estate investment market

16th of January 2015

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Preface

This document is the last step in my graduation process for the master Real Estate & Housing at Delft University of Technology. It marks the end of the research process and will give an answer on the main research question. This research combines my interest for regulation and real estate and in particular real estate fund managers. My aim was to learn as much as possible on these topics and to deliver a high quality graduation thesis.

This report is meant for my tutors from the TU Delft, prof. ir. Hans de Jonge and prof. dr. Aart Hordijk, and for MPC Capital, Lisette van Doorn in particular.

Enjoy reading!

Lieske van Pelt | 16th of January 2015

Abstract

The introduction of the Alternative Investment Fund Managers Directive (AIFMD) is a result of the financial crisis of 2008 and one of the first concrete measures of the European Commission in order to prevent a new crisis of this scale. After the fall of Lehman Brothers, often described as being “too big to fail” the decision was made to increase supervision, focussed on fund managers of alternative investment funds, real estate funds included. This graduation thesis describes the impact of AIFMD on real estate fund managers and the potential effects on the real estate investment market. Through the use of a cost-impact survey on fund managers and by conducting interviews with institutional investors, the main research question has been answered. This report argues that, in general, the cost impact for large, institutional real estate fund managers is not significant. However, smaller, private real estate fund managers do suffer a significant cost impact. This probably has far-reaching consequences for the real estate investment market. The report also presents the expected transparency benefits for the real estate investment market, caused by AIFMD. Short-term, private investors are expected to benefit the most in terms of transparency. On the long-term, the real estate sector as a whole may benefit from an improved image and more trust.

Keywords: AIFMD, impact, real estate fund managers, fund industry, effects, economies of scale, transparency benefits, investors, real estate investment market
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MANAGEMENT SUMMARY

AIFMD & Real Estate

“Impact of the AIFM Directive on real estate fund managers and on the transparency of the real estate investment market”

Introducing the research question

Problem statement
The introduction of the Alternative Investment Fund Managers Directive (AIFMD) is a result of the recent financial crisis of 2008 and one of the first concrete measures of the European Union to tighten the supervision on the alternative fund industry, real estate funds included. After the fall of Lehman Brothers (September 2008), often described as being “too big to fail” the decision was made to increase supervision.

The AIFMD has been introduced in order to protect the investor and to increase transparency in the market. This should positively affect the real estate market. However, these intended objectives are doubted in literature.

AIFMD imposes substantial requirements regarding operations and management processes of the fund managers. This means that operations and processes will have to be changed and this likely affects the whole fund value chain with its actors. These changes required under AIFMD are associated with costs. Until so far, the cost impact is unclear as well as the attribution of these costs between the fund manager and the investors.

Furthermore, the directive is homogeneous, regulating heterogeneous types of funds. This one-size-fits-all approach is probably causing competitive disadvantages for some types of funds.

So,
• The impact of AIFMD on real estate fund managers is unclear.
• The intended objective: more transparency in the real estate investment market is doubted.

Hypotheses
According to the problem statement, the following hypotheses are formulated:

• AIFMD causes a significant impact on real estate fund managers
• AIFMD will contribute to the transparency of the real estate investment market

Main research question
To test the hypotheses, the following main research question is used:

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”
The objective of this research is to give an insight in the AIFMD impact on real estate fund managers and to determine the transparency benefits for the real estate investment market.

Methodologies

A literature study is conducted in order to be able to write the theoretical framework. Due to the limited amount of available literature, also expert interviews are conducted. The theoretical framework is highly important to become adept in the subjects and topics related to AIFMD. The theoretical framework functions as context for the empirical part. When conducting the empirical part of the thesis, the findings are combined with the theoretical framework findings.

In the empirical part of the research, three case studies are conducted on three real estate fund managers and their institutional investors.

Impact AIFMD for real estate fund managers – Survey
The direct- and indirect cost impacts for three real estate fund managers are measured in order to rule on the total cost impact. The direct costs data is quantitative, but the conclusions on this data are qualitative. The indirect cost impact is determined by comparing the organisation structure of the fund manager before and after the AIFMD implementation and is qualitative.

Effects on investors and the transparency of the real estate investment market - Interviews
The investors of the four funds will be asked in interviews for their opinion, experiences and expectations regarding AIFMD and to what extent they think this contributes to a more transparent real estate investment market.
Theoretical framework – context for empirical research

The theoretical framework forms the context for the empirical part of the study and covers the following topics: supervision of the financial markets; the importance of a transparent market; the impact of more supervision on financial markets; objectives of AIFMD; AIFMD and its requirements and the impact on real estate fund managers. These contents of literature evoked the most important findings and identified knowledge gaps on which the empirical part of the study has focused on.

Findings and answer to the main research question

The empirical research findings and literature study enabled me to answer the main research question and to test the hypotheses.

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”

Cost impact on real estate fund managers

My research has shown that the AIFMD impact on real estate fund managers differs according to the size of the fund manager, to the degree of control functions present before implementation and to the complexity of the fund.

![Figure 3: AIFMD cost impact on RE FM’s](image)

Four sub-conclusions can be drawn:

1. For large, institutional fund managers → no significant cost impact (3 bp.)
   AIFMD causes unnecessary, double costs for institutional fund managers

2. Smaller, private fund managers → suffer significant cost impact (possibly unprofitable)
   The private real estate investment market becomes much more expensive

3. Cost allocation mainly depends on revenue model FM
   Whether the AIFM has a management fee or is in paid employment by the investors mainly determines the allocation of the costs
4. Cost impact by FM’s causes effects on real estate investment market
   *more expensive, less choice, more one-sided*

   ![Diagram of Cost Impact FM's vs Real Estate Investment Market]

   **Figure 4:** AIFMD cost impact FM’s affects the real estate investment market

**Transparency benefits for the real estate investment market**

This report argues that **transparency benefits are expected for the real estate investment market** caused by the implementation of AIFMD. But it is too soon to determine the real value of these benefits. These benefits are different for different types of investors. The graph below gives an indication of the expected transparency benefits and summarizes these transparency benefits per investor type.

![Graph showing transparency benefits for private investors (P), ultimate investors (U), and fiduciaries (F)]

**Figure 5:** AIFMD transparency benefits

- **P** = Private investors
- **U** = Ultimate investors
- **F** = Fiduciaries

Transparency benefits mainly depend on the level of knowledge and involvement of the investor.
Thee sub-conclusions can be drawn:

1. Short-term transparency benefits mainly expected for private investors
   *Bad performing funds out of the market (investors are better protected)*

2. Possible long-term benefits for the real estate market as a whole
   *Better image through less cases of fraud and a growing investor confidence*

3. Transparency benefits mainly depend on the level of knowledge, experiences and involvement of the investor
   *With less knowledge, experience and involvement as real estate investor, you will benefit more from AIFMD’s transparency benefits*

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**Discussion – additional lessons**

**One-size-fits-all approach**

Ideally, regulation should be tailor-made and adapted to organisations’ characteristics (size, legal form, sector, risk profiles, etc.). When this is not the case, (disclosure) regulation can create unfair competition and regulatory capture. The smallest (younger) firms or some sectors or activities bear the costs more heavily.

AIFMD makes the real estate investment market much more expensive and therefore unattractive for smaller, more private fund managers. As result, a part will drop out the market and an entry barrier for start-ups may emerge. The market will rescale; investors have less - and more one-sided - choice. These investors will probably search for other investment categories.

Smaller, private fund managers (and start-ups) are generally more opportunistic and more prepared to take risks. The dropout of such parties is a threat for the social issues in the real estate market, since innovation is likely to be hampered. Another threat is the possible move of AIFMs to other jurisdictions not covered by AIFMD. This will decrease the investment activity in the EU. AIFMD then creates a competitive disadvantage for smaller real estate fund managers in the EU.

So, the disadvantages of the one-size-fits-all approach are:

- Institutional parties have unnecessary costs (indirectly pension holders pay)
- Small fund managers and private investors suffer more (unprofitable business)
  - Real estate investment market rescales
  - Possible flow of capital to other investment categories
  - Entry barrier start-ups, threat market dynamics
  - Innovation reduced, threat for social real estate issues
  - Funds search for non-EU domicile, threat EU fund industry

**Transparency benefits for private sector with a question mark**

AIFMD contributes to the transparency of the real estate investment market since it filters out the ‘bad funds’. Especially for private investors this is a benefit, since they are more
protected for their ignorance. However, as the smaller, private fund managers cannot manage their funds under AIFMD and the private real estate investment market shrinks (other jurisdictions, other investment categories, entry barriers), this transparency benefit is far less effective.

The figure below summarized the most important conclusions of this thesis research.

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**Recommendations for further research**

In further research I recommend to focus more on private real estate fund managers and investors, since AIFMD has more impact on this segment. More studies on the effects of AIFMD for the real estate investment market in a later stage also seem to be relevant.
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Introduction

The direct cause for writing this thesis came from a conversation I had with the managing director of MPC Capital. We were discussing the future course of my internship at MPC. This quickly led to an interesting discussion on the AIFMD and the implication it has for the company. It became clear to me that more fund managers are struggling with this drastic reform in the market’s regulatory framework.

The AIFMD regulation is founded on a higher cause of increasing transparency in the real estate market. An issue that has been extensively addressed in other reports, but which has always interested and amazed me. The limited availability of usable, reliable data, how much information is structurally kept up to date, the reluctance of market parties to share information, the number of fraud cases that have surfaced throughout the years and the overall image the real estate market has, are some examples of why I am interested in this topic. All of these issues make me wonder whether it is about time that more strict regulations are introduced in the real estate market.

The AIFM-Directive has been imposed by the EU on all its member states. Its goal, as mentioned, is the introduction of a more transparent (real estate) market and a better protection of investors.

The translation of the directive into regulation has substantial consequences for organisations that it applies to. In order to comply, these organisations have to go through a lot of changes that are coupled to significant costs.

The topicality, relevance and feasibility of studying this topic fascinate me. What has been the supervision of real estate markets in the past years? Why is AIFMD introduced now? How can real estate fund managers organise their businesses in the most efficient manner to comply with the AIFMD? What changes are necessary? What happens to the information flows? And maybe most importantly: Does it really contribute to increased transparency?

Most of the publications of the AIFMD are by parties that offer the service of custodian or advisor for the implementation by fund managers. These publications are not objective researches, nor do they delve into the impact it has on the organisations.

My interest in all of these issues surrounding real estate market control have resulted in my choice of thesis subject and this report.

Enjoy reading!

Lieske van Pelt    | 16th of January 2015

* Alternative Investment Fund Managers Directive. Regulation imposed by the EU for fund managers.
Reader’s Guide

Chapter 1 covers the research proposal. The context of the topic will be described in chapter 2; the theoretical framework. In chapter 3, the empirical part of the study is described and the gathered information will be disclosed. Chapter 3 also includes the outcomes of the empirical research. Chapter 4 includes the conclusions, discussion, limitations and recommendations of this graduation project.

Figure 1: Reader’s Guide
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AIF</td>
<td>Alternative Investment Fund</td>
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<tr>
<td>AIFM</td>
<td>Alternative Investment Fund Manager</td>
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<tr>
<td>AIFMD</td>
<td>Alternative Investment Fund Managers Directive</td>
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<tr>
<td>AFM</td>
<td>Authority Financial Markets (in the Netherlands)</td>
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<tr>
<td>AuM</td>
<td>Assets under Management</td>
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<tr>
<td>DNB</td>
<td>De Nederlandse Bank</td>
</tr>
<tr>
<td>ESMA</td>
<td>European Securities and Markets Authority</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FM</td>
<td>Fund Manager</td>
</tr>
<tr>
<td>INREV</td>
<td>European Association for Investors in Non-listed Real Estate Vehicles</td>
</tr>
<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
</tr>
<tr>
<td>LTV</td>
<td>Loan-to-Value</td>
</tr>
<tr>
<td>NAV</td>
<td>Net Asset Value</td>
</tr>
<tr>
<td>RE</td>
<td>Real Estate</td>
</tr>
<tr>
<td>REIT</td>
<td>Real Estate Investment Trust</td>
</tr>
<tr>
<td>StiVaD</td>
<td>Stichting Vastgoed Data</td>
</tr>
<tr>
<td>PTA</td>
<td>Platform Taxateurs en Accountants</td>
</tr>
<tr>
<td>REM</td>
<td>Real Estate Management</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investments in Transferable Securities</td>
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For more explanation on some abbreviations and for other definitions see glossary on page 143.
1. RESEARCH PROPOSAL

1.1 PROBLEM

This paragraph will elaborate on the analysis of the problem and the problem statement. The problem analysis contains the specific problems related to the introduction and implementation of AIFMD and formulates arising questions, in order to write a covering and relevant problem statement from where an appropriate main research question can be formulated.

1.1.1 Problem analysis

The introduction of the Alternative Investment Fund Managers Directive (AIFMD) is a result of the recent financial crisis of 2008 and one of the first concrete measures of the European Union to tighten the supervision on the alternative fund industry (Smits, 2012). After the fall of Lehman Brothers (September 2008), often described as being “too big to fail” the decision was made to increase supervision. AIFMD aims to establish a harmonised regulatory framework for monitoring and supervising the perceived risks posed by unregulated funds (such as real estate funds). Instead of regulating the funds themselves, AIFMD targets the managers of these funds (Masons, 2013).

More steps have been taken in order to prevent a future crisis of this magnitude and to increase controllability of the financial markets. Banks are already under strict supervision and also the real estate market is being increasingly subjected to regulations. Not only have stricter requirements regarding the quality of valuations been brought into play, but now, also the supervision of fund managers is being stepped up. The causes for these changes in the regulatory system lie with incidents by several organisations that were simply not necessary. The trust in the financial system is low and control on the financial markets seems lost. As a society, we have gone from a high trust to a low trust society. In order to change this, the EU has decided to rely on extensive regulations. But is this approach really the best option to improve the market through increased transparency and regain society’s trust?

Risk management and compliance is a major cost in banking, amounting to around 10% of revenues. This percentage seems disproportionate. Is the ratio between supervision and associated costs off-balance? And even under these regulations, incidents still have occurred and banks have collapsed. Has the increased supervision, and thus increased risk compliance cost really contributed to increased control on the market? Do all parties realise the consequences both for the regulator and the organisation under supervision of a system of increased supervision?

“What is the importance of supervision and a transparent real estate market and why has AIFMD been implemented?”

The AIFM-Directive has been introduced in order to protect the investor and increase transparency in the market. The Autoriteit Financiële Markten (AFM), De Nederlandse Bank (DNB) and a new type of depositary will act as supervisors. The AIFMD imposes substantial requirements regarding operations and management and the structure of funds. This means that operations will have to be changed and this likely affects the whole fund value chain with its actors. The deadline for compliance by regulated parties was July 22nd of 2014. Without a license, it is prohibited to manage alternative investment funds and offer participations (Nova Trust, 2014).
The AIFMD is still very conceptual, making it difficult for fund managers to interpret the regulations into their day-to-day practice. There are hardly any references for fund managers to consult. A known flaw is that the directive is homogenous, regulating heterogeneous parties, since alternative investment funds include infrastructure funds, hedge funds, real estate funds and more (Wielaard, 2013). It is an instrument that has not been designed specific for real estate funds which makes the implementation more difficult. The fact that legislation (AIFMD included) is written by jurists also hinders the ease of implementation for those that have to comply.

The implementation of AIFMD has a lot of implications for the real estate organisations that are supervised by the directive. An independent depositary must be appointed; new roles within the organisation are necessary; disclosure of information and reporting requirements are changed; there are new valuation rules and everything must be justified to the investor and the AFM. INREV has identified the most challenging aspects of AIFMD (INREV, 2013a).

The choice of a depositary to fulfil the task of monitoring certain processes and significant cash flows of the fund is proven to be a difficult decision. Uncertainties exist concerning the way the depositary will fulfil its tasks and how strict supervision should be (Wielaard, 2013). Additionally, the depositary is faced with the risk of reliability by associating a fund and has redundancy in activities with the work of the accountant. It is safe to say that the depository is still figuring out its role.

The changes required under AIFMD are associated with costs. The implementation to comply with the directive is costly, as well as remaining compliant. So far, it is still uncertain how high the costs impact will be. The role of the depositary is an example of a cost that is still uncertain. The price at which depositaries offer their services differ with a factor of 20 (Wielaard, 2013). The choice of the right partner seems crucial. But what determines which potential partner is the best?

Whether the investor or the fund manager will be charged with these costs is also uncertain. Will costs be split? INREV has presented this question to market parties and there doesn’t seem to be a unanimous answer.
The impact of AIFMD for real estate fund managers is unclear. The wide scope and one-size-fits-all approach of the directive is causing a struggle for real estate fund managers. The highly demanding requirements and expected, significant cost impact ask for reorganisation. With yet no references available, a conceptual directive and supervisory bodies still inventing the wheel, real estate fund managers encounter difficulties.

“What is the AIFMD impact on real estate fund managers?”

Implementation of AIFMD has far-reaching consequences for the organisations it supervises. These consequences do seem less unattractive if the desired effects of the directive are realised. The desired benefits from the AIFMD are: Market stability, protection of the investors, increased transparency in the market and an increase in investment activities within Europe. The question remains whether these benefits are realistic and truly contribute to a more transparent real estate market. This research focuses on the effects for investors and the effects for the transparency of the real estate market.

“Does AIFMD contribute to a transparent real estate market and better investor protection?”
1.1.2 Problem statement

The transparency of the real estate market is a much-discussed, hot topic. After the financial (real estate) crisis of 2008 several measures were taken to tighten the supervision on the financial markets. The effects of this supervision and monitoring of the markets are far-reaching for both the regulators and the companies, which have to comply. A critical view on the importance of supervision and a transparent real estate market is appropriate as introduction of the AIFMD.

The Alternative Investment Fund Managers Directive is a measure from the EU for more supervision on fund managers of alternatives. The impact of the directive on real estate fund managers is unclear and managing this impact efficiently seems to be difficult. Concluded can be, that an insight on the AIFMD impact for real estate fund managers, is desirable.

The proposed intended effects of AIFMD have to contribute to a more transparent real estate market and a better investor protection. The question is whether these intended effects are realistic.

So,

- The impact of AIFMD on real estate fund managers is unclear.
- The intended objective: more transparency in the real estate investment market is doubted.

Hypothesis

According to the problem statement and reviewed literature, the following hypothesis is formulated:

- AIFMD causes a significant impact on real estate fund managers
- AIFMD will contribute to the transparency of the real estate investment market

Sources:

- Financieel Dagblad
- Vastgoedjournaal

Jaarverslag 2012: AFM houdt verscherpt toezicht op vastgoedsector

Bouwinvest bemachtigt als één van de eersten AIFMD vergunning

Vastgoedsector schrikt terug voor vermelding huurgegevens en incentives in centraal transactieregister

‘Ook wij worstelen met invoering van AIFMD’

Toezichthouder AFM hoopt eerste AIFMD-vergunning in de komende weken te verlenen
1.2 RESEARCH

This chapter includes the research questions, the conceptual model and the research methodologies. The research methodologies include the process, strategy, form, method, techniques and the research design.

1.2.1 Research questions

Based on the problem analysis, problem statement and hypothesis, two elements are indicated for the main research question. The first part of the problem analysis functions as context for the research.

Two elements for the main research question:
1. AIFMD impact for real estate fund managers
2. Effects for investors and the real estate investment market

To test the hypothesis, these two elements have resulted in the following main research question:

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”

To be able to answer the main research-question, sub-research questions are formulated.

Theoretical framework – Context
1. What is the fund industry where AIFMD operates in?
2. What are the origins of control on financial markets?
3. What is the importance of a transparent market?
4. What is the impact of more control?
5. What are the objectives of AIFMD?
6. What is AIFMD?
7. What is the foreseen AIFMD impact on real estate fund managers?

Sub-research questions AIFMD impact for real estate fund managers – empirical
1. What is the direct cost impact?
2. What is the indirect cost impact?
3. What is total impact for real estate fund managers?

Sub-research questions transparency of the real estate investment market – empirical
1. Is there more information available with the new way of AIFMD-reporting?
2. Does AIFMD lead to better investment decisions?
3. Does AIFMD change investor behaviour?
4. Does AIFMD lead to more transparency in the real estate investment market?
1.2.2 Conceptual model

The elements of the research question can be conceptually modelled. The two main elements of this research, the AIFMD impact for real estate fund managers and the effects on the transparency of the market, can be placed in the fund value chain stakeholder map. The two questions encompass different stakeholders.

1. “What is the impact of AIFMD for real estate fund managers?”
This question clearly encompasses the fund manager with its different levels of management, but also the supporting actors such as the depositary, accountant, external valuer, regulator (AFM) and the administration service provider. AIFMD prescribes requirements for the real estate fund manager, whereby the other actors are closely involved.

2. “Does AIFMD contribute to the transparency of the real estate (investment) market?”
The transparency question encompasses the interaction between the real estate fund manager and the investors of the fund the fund manager manages.
Actors

Investor
The investor invests in the real estate funds. He will receive returns (dividend) and capital growth when the real estate manager manages to make profit on the investments.

Real estate fund manager
The fund manager manages the real estate funds in which the investors have invested. He is responsible for managing the risks and for making return, which will be paid out to the investors. The fund manager receives a fee as a percentage of the assets under management for his services. He has to justify his actions by means of annual reports and prospects for the fund.

Depositary
The depositary task is to amplify the protection and safety of the investors of alternative funds. The depositary is responsible for monitoring the cash flows and processes of the fund manager on a daily basis, for oversight and safekeeping of assets and verification of assets.

Regulator – Authority Financial Markets (AFM)
The Authority Financial Markets stimulates fair and transparent financial markets and is a regulatory authority. The AFM has a delegated supervisory role (legal conscience). In case the depositary observes instances of fraud, he is obligated to report this to the AFM.

Accountant
The accountant is responsible for the audit of the annual reports of the fund. With the introduction of the new tasks of the depositary, a large part of the accountants’ tasks will be overlapping with the depositary tasks, who is more frequently involved (see figure 6).

External valuer
The external valuer provides independent valuations of the assets of the fund the fund manager manages.

Relation between actors

Investor – Real estate fund manager \(\rightarrow\) management services and information sharing
The investor invests money in the real estate funds, which are managed by the real estate fund manager. If the managers manage to make profit, the investors will receive return of their investments and the manager will receive a fixed or variable fee for its management services. The fund manager has to justify his actions by means of regular reporting for the fund.

Real estate fund manager – Depositary \(\rightarrow\) oversight, safekeeping and information sharing
In order to comply with the AIFM-Directive, the manager has to report several processes and cash flows to the depositary. The depositary will verify these cash flows by monitoring these and will verify if the manager acts in line with the defined processes.

Regulator AFM – Real estate fund manager/Depositary \(\rightarrow\) delegated supervisory role
The fund manager is obliged to report to the regulator on a regular basis. The depositary is obligated to report to the regulator in case of monitoring something that seems to be fraud or mismanagement. The regulator is entitled to hand out punishments to the managers, or depositary when fraud is detected.
The accountant and depositary will have overlapping tasks after implementation of the AIFMD. By certificating the work of the depositary (ISAE 3402), an accountant is, in theory, able to rely on the processes and controls of the depositary. This would avoid duplication of efforts and might save costs for the manager.

<table>
<thead>
<tr>
<th>Tasks Depository</th>
<th>Focus areas Accountant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring and verifying cashflows on a daily basis</td>
<td>Accuracy of costs</td>
</tr>
<tr>
<td>Verification ownership of assets (properties)</td>
<td>Ownership of assets</td>
</tr>
<tr>
<td>Monitoring issue &amp; redemption rights / capital- and dividend payments</td>
<td>Control of mutations equity</td>
</tr>
<tr>
<td>Monitoring intime completion of transactions</td>
<td>Open transactions</td>
</tr>
<tr>
<td>Monitoring compliance investment policy and restrictions</td>
<td>Compliance regulations</td>
</tr>
<tr>
<td>Monitoring determination of NAV and valuation procedures</td>
<td>Valuations of assets</td>
</tr>
<tr>
<td>Allocation of revenues</td>
<td>Completeness revenues</td>
</tr>
<tr>
<td></td>
<td>Annual reports (year-end closing)</td>
</tr>
<tr>
<td></td>
<td>Compliance with reporting rules</td>
</tr>
</tbody>
</table>

Figure 6: Overlapping tasks depositary and accountant, (Nova Trust, 2014)
1.2.3 Relevance

The AIFMD implementation deadline is in the middle of my graduation process (July 22th 2014). This makes the subject more current than ever.

Social relevance – *The society needs support*
Fund managers would benefit from a study of the impact of AIFMD. By conducting a research focused on the direct and indirect cost impact, fund managers are able to identify in-efficient organisation structures and significant out of pocket costs.

The intended objectives of the directive: more investor protection and a more transparent market are socially desirable objectives. A study of the effects of the directive on and for real estate investors can provide insights in these intended objectives.

Scientific relevance - *lack of knowledge AIFMD*
Little is written about this subject through the actuality of it. The reports that have been written on this subject are mainly subjective. The big consultancy organisations, accountants, the banking sector and other organisations that see opportunities to benefit from the directive, wrote reports on the topic to market themselves.

An objective research, with a measure of the potential impact for fund managers and a view on the effects of the regulation on the real estate investment market as result, seems to be a great addition to the science. The view on the effects can give new insights on risk management under the AIFM-Directive, which may be a contribution to the knowledge of systems of risk.

1.2.4 Research objective & target groups

Research objective

As introduction on AIFMD, supervision on the financial markets and especially control on the real estate market will be critically discussed. The motive for the AIFMD will become clear from this introduction.

An objective of this study is to determine the impact of AIFMD for real estate fund managers in order to be able to identify significant costs and organisational changes – *organisational & cost efficient*

A second objective is to provide insight in the intended effects of the directive and whether these are realistic – *a more transparent real estate (investment) market*

Target groups

The cost profiles of AIFMD for *real estate fund managers* will give them the possibility to identify significant costs and (in)-efficient organisation changes.

To clarification of the effects of the intended objectives of the directive is in particular meant for *investors*, since it is about the transparency of the real estate investment market. In the end, more transparency in the real estate investment market will result in a more transparent real estate market as a whole. Does it have positive effects for the investors and will the real estate market become more transparent?
1.2.5 Research methodologies

In order to give an appropriate answer on the main research question with a scientific value, its necessary to define the research methodologies. This chapter includes the research process, strategy, form, methods, techniques and the research design.

Research process
The research process is the solid basis of the research to conduct. A graduation thesis is basically a linear process. However, in this linear process it is needed to reflect continuously upon the discovered information, gained knowledge and formulated findings. After having reflected on these, adjust the report if necessary. This process is called an iterative process. In an iterative process, the collection of information, analysis and synthesis proceed in a tandem, repeatedly referring and interacting back to each other (Bryman, 2008). Figure 7 shows the processes of this research repeatedly referring and interacting back to each other.

Research strategy
The research strategy contains a logical, organized plan to gather the needed data and process the gathered data. By deciding on the research strategy, basically choices can be made between opposites, for example: theory versus practice, quantitative versus qualitative research, in-depth versus broad research and project-based versus process-based research.

Theory versus practice
As stated by Swanborn: ‘Theory-oriented research is a way of doing scientific research by solving a problem by means of formulating a theory. Practice-oriented research aims to contribute in solving a problem applied in practice’ (Swanborn, 1997). Literature also mentions the difference between desk (theory) and empirical (practice) research. Desk research literally means that the researcher will not leave his desk while conducting his research and findings will be delivered by studying scientific literature. Empirical research consists of analysing and understanding practical experiences.

This thesis research will encompass both approaches. First, (scientific) literature should be reviewed in order to understand the context you are working in and to position the research in the context. The motive of the occurrence of the AIFM-Directive, fund industry know-how, the contents of the directive and a critical view are important to study first, in order to identify the most important findings and knowledge gaps. After gaining insights in the field of working, the (empirical) practice-based research can be conducted, to explore the impact and effects of the AIFM-Directive in real life and draw lessons from there.

Quantitative versus qualitative research
A researcher must make the choice between quantitative and qualitative research. Swanborn explains quantitative research as research whereby the results will be made in explicit numbers, charts or/and graphs (mostly gained by calculations). The information obtained in qualitative research is mostly gained by sensorial perception, resulting in verbal results (Swanborn, 1997).
This research is qualitative, but encompasses partly quantitative data.

The overall conclusions on the impact and efficiency of AIFMD are qualitative whereby the measurements of the direct costs are quantitative (expressed in numbers, charts and graphs) and on the indirect costs qualitative.

The second part of the empirical research, where the effects of the directive for and on the investors will be studied, is qualitative. The results are based on an understanding of the practical experiences of the investors.

**In-depth versus broad research**

A broad approach is a comprehensive approach, covering a certain domain or field that will give the opportunity to generalize the findings. The in-depth research approach is more small-scale oriented and focuses on a particular phenomenon. The findings from in-depth research hardly establish generalized knowledge (Verschuren, 2007). In this research the efficient implementation of the AIFMD for real estate fund managers and the effects of this directive on the investors of these funds are the key issues. These issues require a more broad research approach, to be able to generalize findings in the end.

**Project-based versus process-based research**

Heurkens describes projects as follows: ‘In general, projects can be characterised by its goal-oriented approach. The endeavour to undertake available inputs into output. Having an unique and single or temporary nature, since the start-point & the end-result are the boundaries of a project spectrum’ (Heurkens, 2012).

According to Franzen and Hobma: ‘Processes can be characterized by the management of complexity within a group of interrelated stakeholders carrying out a sequence of a series of plural events. Like the land development, property development, and area operation & management. It is the actual on-going treatment of converting inputs into outputs. These are the activities that are required to achieve the end-result’ (Franzen, Hobma et al., 2011) (Franzen, 2011).

This thesis will be defined as a process-based as well as a project-based research, since the subject of this thesis consists of two elements. The impact and efficient implementation of the AIFMD corresponds with the process- and project based approach. The ‘what’ and ‘how’-question has to be answered here. The study of the effects on and for investors asks for a project-based research approach. There will be studied ‘what’ the effects of the directive are on and for investors.
Research form

According to Yin (1984) there are three different categories of case studies (Yin, 2009):

**Exploratory case studies:** exploratory case studies set to explore any phenomenon in the data which serves as a point of interest to the researcher.

**Descriptive case studies:** descriptive case studies set to describe the natural phenomena, which occur within the data in question.

**Explanatory case studies:** explanatory case studies examine the data closely both at a surface and deep level in order to explain the phenomena in the data.

This thesis is an explanatory research. As a researcher I ask myself the explanatory questions: Why is this regulatory framework implemented? What is AIFMD impact on a real estate fund manager? How can a fund manager deal with this impact the most efficient? What are the effects on and for investors? These questions require the examining of data and explanation of this.

Research method

**Case-study method**

To execute an explanatory research, the case-study method is a practical method in order to understand, explain and draw lessons from the implementation process and the effects of the directive. As stated by Heurkens: ‘Case study methodology is mainly used to collect, analyse, compare and draw lessons from research data and is a form of qualitative research. Especially used in academic field of urban planning and management, to examine contemporary real-life situations and provide the basis for the application of ideas’ (Heurkens, 2012).

Within the case-study method it is possible to combine different research strategies and techniques. This is a major advantage, since you will be able to triangulate data. Triangulation of data means that the researcher uses more than one method, technique or source of data to be able to crosscheck the results and findings. The triangulation of data will increase the validity of the findings and results (Heurkens, 2012).

The empirical study of the impact of AIFMD on real estate fund managers is a qualitative study with some quantitative data. The literature, quantitative numbers from the surveys and qualitative data out of the surveys will enable me to crosscheck the results and findings. The interviews with investors of the funds also need triangulation of data in order to increase the validity of the findings. So, literature, the interviews and site observation will be used as research techniques. More information on research techniques can be found on page 30 under ‘research techniques’.

Before starting the case studies, two methodological choices have to be made. You have to decide whether it is a scope versus depth and whether it is a single case versus cross-case study.

**Scope versus depth**

The difference between a scope and a depth approach typifies itself by the number of cases. Paragraph 1.2 already discussed the in-depth and broad research approach. To be able to draw general conclusions (which is a purpose of this study) on the studied fields, a scope case study approach is required.
Single case versus cross-case study
This research is aimed to conduct a cross-case study to compare different ways of management of (office) funds and their investors under the AIFM-Directive. The selected cases are comparable real estate fund managers of the four biggest Dutch office funds. These office funds have comparable, professional investors.

To optimize the cross-case study, the following criteria are formulated:

- Dutch Office Fund
- Size of organisation on real estate fund management (FTE’s)
- Fund with institutional (professional) investors
- Comparable investment strategies
- Comparable Assets under Management (AuM)
- Practically same level of risk management
- Best in class

The four funds have a comparable organisation, dealing with comparable numbers of assets, which makes it possible to study and compare the impact of the AIFMD implementation process and draw general conclusions. The four office funds have comparable investor-profiles, mostly institutional, with a similar mind-set and expectations (they all choose to invest in real estate and especially in offices with a certain risk-profile). This makes it possible to study and compare the effects on and for the investors and draw general conclusions. Dutch office funds have been chosen because of the availability of these funds to research.

The real estate fund managers and the associated funds are:

- Syntrus Achmea Real Estate Finance
  *Syntrus Achmea Dutch Office Fund*
- CBRE Global Investors
  *CBRE Dutch Office Fund*
- Altera Vastgoed
  *Altera Kantorenfonds*
- Bouwinvest
  *Bouwinvest Institutional Dutch Office Fund*

Sample size
These four fund managers are the biggest in the Netherlands and manage a significant number of office buildings in the Netherlands. There is no other party in the Netherlands with a similar profile to these four. The total size of the Dutch institutional office and retail investment market is calculated at 7,7 billion (Statline, 2014). The AuM of the four participating office funds together is 2,2 billion. This covers a great part of the total AuM of the Dutch office investment market, especially taking into account that the estimated 7,7 billion also include retail investments.
Research techniques

*Literature review (impact, efficiency & effects)*
The first step in the research process is reviewing literature and documents. The purpose of the literature is to provide a meaningful and useful context of the research. It will describe, summarize and evaluate the available literature (Yin, 2003). The literature review for this thesis is more extensive than reading articles and documents about the subject. The context of the subject is linked to many other subjects (financial crisis, other measures, banking sector, fund industry). It appeared to be necessary to review these subjects, in order to get a total and complete knowledge on the field of research. This resulted in an extensive literature review, summarized in a theoretical framework with the most important findings and the identified knowledge gaps.

*Surveys (impact) – qualitative*
The survey method is a qualitative research with partly quantitative data. The fund managers will be asked to fill in numbers for the amounts of the direct costs (quantitative) and to describe the changes in organisation under AIFMD (qualitative). The direct cost data will be asked in basis points over the return or AuM and will be presented anonymous, since this is sensitive information.

*Semi-structured interviews (effects) – qualitative*
To gather data on the effects on and for investors, interviews will be held. There are three forms of interviews: open interviews, semi-structured interviews, structured interviews. The interviews with the investors will be semi-structured interviews. This interview method allows two-way communication, it is not only asking and answering. The researcher only prepares the outline of questions, so there is space to formulate more detailed questions during the interview.

‘The interview will start with some general questions or topics. Whereupon some relevant topics are initially identified and the possible relationship between these topics and issues becomes the basis for more specific questions. These could be roughly prepared beforehand, but the majority will be created during the interview. The interview should be guided by a framework of general topics & expected relationships, to stay flexible and to probe for details or discuss issues more in-depth’ (Davis-Case, 1990).

*Site observation*
The site observation technique will be used to support the empirical data results.
‘It enables researchers to relate to initial intentions of the project, as discussed in the interviews or encouraged in the documentation. There is some subjectivity involved in this method, due to the fact that the project will be judged by the researcher’ (Stumpel, 2014). ‘Nevertheless, when opinions on the project are obtained by means of visiting the site, a more balanced understanding of the physical, social, and economic characteristics will be provided, as Heurkens (2012) describes.’ Site observation will be conducted while interviewing the investors and by the follow-up calls with the fund managers after sending me the documents with the direct- and indirect cost impact data.
**Triangulation of data**

Triangulation is a method used by qualitative researchers to check and establish validity in their studies by analysing a research question from multiple perspectives (McDonald, 2002). This qualitative research, studying the AIFMD impact and effects on and for investors needs triangulation of data to increase the validity and utility of the findings and to deepen the researcher’s understanding of the issues.

**Research design**

The research design encompasses the whole research process (figure 11). The empirical part of the design asks for more detail (figure 12).

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**Figure 11: Research design**

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**Research proposal (P1) – Literature study**

Setting up a research proposal begins with a personal motive and an analysis of the problem. Combining this with current literature on the subject, some interviewed experts and research objectives, a research question is formulated. In order to answer this question, a theory is formulated and research methods are indicated.
Theory (P2) – Literature study
These contents together form the theoretical framework. Literature study is conducted in order to fill these contents. The theoretical framework is highly important to become adept in the subjects and topics. When conducting the empirical part of the thesis, the findings of the empirical part can be combined with the findings of the theoretical framework.

Empirical part of the study (P3 & P4) – Surveys, interviews, literature, site observation
The empirical part of the study consists of two parts.

Part 1 – Impact AIFMD for real estate fund managers.
The direct- and indirect cost impact for four real estate fund managers will be measured in order to assess the impact. The direct costs will be given in quantitative data, but the conclusions on the data will be qualitative. The indirect cost impact will be determined by comparing the organisational structure of the fund manager before and after AIFMD implementation and is qualitative.

Part 2 – The intended effect of the directive for investors will be measured qualitatively. The investors of the four funds will be asked in interviews for their opinion, experiences and expectations with AIFMD and to what extent they think this contributes to a more transparent real estate investment market.

Outcome (P4) – Synthesis of all gathered data
In phase 4, the findings from the empirical research and the written theoretical framework will be combined to formulate a useful outcome. Conclusions on AIFMD impact will be drawn and an insight on the transparency effects for the investor will be formulated.

Conclusions & recommendations (P5)
In the last phase, the conclusions and recommendations will be drawn.

---

Figure 12: Empirical part of research
1.2.6 Research planning

I aspire a nominal graduation process. I plan on graduation according to the TU Delft schedule. This means that I will submit my reports on the data defined by the TU Delft. I plan to present my graduation project at the end of the first semester of academic year 2014/2015, which is in January 2015.

![Figure 13: Rough research planning](image)

A more detailed overview of the last four months can be found below.

![Figure 14: More detailed planning last 3 months](image)
1.3 COLLABORATION

1.3.1 Domain Real Estate Management

The courses from the Real Estate Management (REM) department taught us on corporate real estate strategies, Portfolio-management, functions within real estate firms and there was a focus on the management of costs in these organisations.

This graduation research is an issue for real estate fund managers. A top-down legislation has to be implemented, whereby less steering is accompanied. New roles and functions have to be fulfilled, responsibilities will shift or increase, and the requirements of reporting and disclosure will cause a lot of paper work. The objectives of the directive aim to contribute to a more transparent real estate market.

The elements of this study are in the field of real estate management, and therefore this study will be conducted in the Real Estate Management laboratory of the TU Delft.

1.3.2 Tutors

My tutors from university are prof. ir. Hans de Jonge and prof. dr. Aart Hordijk. Hans de Jonge is my first mentor and Aart Hordijk second mentor. Both have got extensive experience in real estate, are very active in the real estate market and have affinity with my subject.

Mentor from MPC is Lisette van Doorn. Lisette works as independent real estate investment professional and helps MPC to become AIFMD compliant for their logistic fund (ABN AMRO MeesPierson Real Estate Growth Fund – 120 EUR million). She has got a comprehensive background in real estate investment management (ING Real Estate Investment Management, CBRE Global Investors, INREV) and has got a lot of knowledge on this subject.

1.3.3 Graduation Company

My graduation research will be linked to MPC Capital. Until the summer break (August 2014), I worked two days a week for this company. After the summer break (September 2014), this agreement turned into a graduation internship, whereby I was present 5 days a week. In this period, I worked 3 days a week on my graduation thesis, and 2 day a week for MPC Capital. Thus, from September 2014 I have worked 5 days a week in their office in the World Trade Centre on the South Axis.

MPC Capital is a real estate fund manager of 31 funds, originally from Germany. Many people currently working for MPC in Amsterdam have been working for other real estate companies. Therefore, there are many useful links to other companies, which I used for my research. I started my internship here in October 2013, for two days a week. The ambience is good and the people are very helpful (and it is a 5 min cycle from my house). This resulted in the decision to stay for my graduation thesis.
1.4 REPORT STRUCTURE

Chapter 1 covers the research proposal. The context of the topic will be described in chapter 2; the theoretical framework. In chapter 3, the empirical part of the study is described and the gathered information will be disclosed. Chapter 3 also includes the outcomes of the empirical research. Chapter 4 includes the conclusions, discussion, limitations and recommendations of this graduation project.

Figure 15: Report structure
CONTEXT - The fund industry

This chapter will give information about the fund industry in order to be able to understand the context of the level of playing field of the AIFMD.

1. Investment considerations

First we discuss the behaviour of investors. Why do investors invest in real estate and in particular, why in non-listed real estate funds?

**Why investing in real estate?**

Real estate has got characteristics making it worth while investing in (INREV, 2013b).

- It has a sufficient size of a relevant market (diversification benefits)
- Tradable asset and general market understanding of value / price
- Measurable risk and return profile (comparable to other asset classes)
- Generating a return consisting of income as well as capital growth
- Legal rights that can be held in trust
- Inflation hedge (although this is not always the case)

**Who is investing in real estate?**

Everyone who is willing to take risk to create future money is investing.

- Public entities (sovereign wealth funds)
- Private parties (family offices, wealthy individuals)
- Institutions (pension funds, insurance companies)

Institutions are voluminous investors (pension funds, insurance companies). These entities need to diversify their investments to reduce risks and to have a multi-asset portfolio. All the assets it is managing is known as ‘Assets under Management’ (AuM) (Stumpel, 2014). The AuM of an institutional investor consists of fixed income investments (bonds), shares and alternatives. Real estate investments are part of the alternatives. A common distribution of the investments (AuM) of a Dutch pension fund is shown in the figures below. (The size in euros indicates the whole sector).
2. Real estate investment vehicles

For an investor, who wants to invest in real estate, there are several options to invest. Investing in real estate can be done directly or indirectly. When you choose to invest indirectly, you have the choice to invest in a listed or non-listed real estate investment vehicle.

**Direct investments**
When an investor buys a physical property (as a whole or some parts), it is a direct investment in real estate. Investing directly in real estate engages additional responsibilities for managing the property. Property management requires specific knowledge and pro-active involvement. Also a lack of diversification is a feature of direct investments. These demanding features of direct investments make the indirect investment market a good alternative.

**Indirect investments**
With an indirect investment in real estate, you will align to a party with the expertise and skills of managing the investment object. You invest not only in the real estate property but also in people managing the investment property. The fund managers receive a fee for its management services. An indirect investment is at the expense of the delegation of management, the investors control and involvement, but will give the possibility to gain higher returns since you will be able to benefit from more variable use of leverage (Stumpel, 2014). Holding real estate assets indirectly can be divided into listed real estate investment vehicles and non-listed real estate investment vehicles.

**Listed vehicles**
A listed real estate investment vehicle is traded on a stock exchange. These shares are accessible for all types of investors. A great benefit and one of the main reasons investors like to invest in listed vehicles is the trading mechanism that provides a high liquidity. A listed real estate vehicle is often better known as a Real Estate Investment Trust (REIT).

**Non-listed vehicles**
A non-listed investment vehicle is not listed on any stock exchange. Non-listed vehicles are less well known than listed vehicles. They are closed for general public and are sold through the (more privately) over-the-counter market (Stumpel, 2014). A higher degree of illiquidity, lack of transparency and long investment horizons (5 to 10 years), are characteristics of non-listed vehicles. This sounds negative but investing in non-listed vehicles helps to diversify a (real estate) portfolio. They provide access to a much wider range of sectors and specific markets. Investing in non-listed gives access to specific management expertise and allow for bespoke strategies and governance structures. And, important to notice, investments can be made with the same level of assurance as any other real estate investment.

![Figure 18: Real estate investment vehicles, based on (CBRE, 2013)](image-url)
3. Investment strategies

Investment vehicles have the choice to invest in assets in different sectors with different life cycles and an associated risk and return profile and a certain degree of leverage. The strategies of investment vehicles mainly differ in IRR-ratios and LTV ratios. The investment strategy of the real estate investment vehicle determines the choice for a certain return (Internal Rate of Return, IRR) and the level of risk and leverage (Loan To Value, LTV).

Three investment strategies can be distinguished. Every fund is classified in the scope of a core, value-added or opportunistic fund.

Core investment vehicles
A core investment vehicle is characterized by assets on A-locations, with stable income returns, low risk-returns, a low LTV, fully let, multi-tenant and long term contracts (Trimailova, 2008). A core investment is in general a management and operating asset project.

Value-add investment vehicles
These vehicles are characterized with medium-to high IRR's and LTV's. The assets are often in need of refurbishment or redevelopments and active asset management, which cause risks (INREV, 2008). Value-add investments also include core assets in developing areas. The returns of value-added funds are a combination of income and capital return.

Opportunistic investment vehicles
Opportunistic investment vehicles are characterized with high IRR's and high LTV's. These risky asset investments can involve developments without pre-letting or portfolio deals. The returns are made up of capital returns. In general, the holding periods of opportunistic assets are shorter compared to the other two strategies (INREV, 2012a).

The figure below provides an overview of the general characteristics of the three investment strategies.

<table>
<thead>
<tr>
<th>characteristics</th>
<th>Core</th>
<th>Value-add</th>
<th>Opportunistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRR ratio</td>
<td>≤ 13 %</td>
<td>11,5% ≤ X ≤ 18,5 %</td>
<td>15,5% ≤ X &gt; 18,5 %</td>
</tr>
<tr>
<td>LTV ratio</td>
<td>≤ 60 %</td>
<td>30% ≤ X ≤ 70 %</td>
<td>60% &lt; X &gt; 70 %</td>
</tr>
<tr>
<td>return</td>
<td>stable income</td>
<td>income &amp; capital growth</td>
<td>capital growth</td>
</tr>
<tr>
<td>cashflow</td>
<td>predictable</td>
<td>capital constraints</td>
<td>none</td>
</tr>
<tr>
<td>risk</td>
<td>low</td>
<td>medium - high</td>
<td>high</td>
</tr>
<tr>
<td>holding period</td>
<td>5 - 10 years</td>
<td>≤ 5 years</td>
<td>≤ 5 years</td>
</tr>
<tr>
<td>asset status</td>
<td>fully let, multi-tenant</td>
<td>refurbishment, active asset management</td>
<td>development or distressed</td>
</tr>
</tbody>
</table>

Figure 19: Investment strategies characteristics, based on (CBRE, 2013) and (INREV, 2012a)
4. Fund structures

Stumpel defines a fund as a ‘pooled investment vehicle that pool capital from the investment audience and controls this investment from a collective point of view’ (Stumpel, 2014). INREV and Pozen and Hamacher define a fund as follows:

“A fund is a term used to describe a structure where at least 3 investors’ capital is pooled together and managed as a single entity with a common investment aim” (INREV, 2008).

“Notice that we say that you invest ‘through’ a fund rather than ‘in’ a fund. Funds are not really an investment itself; it is just an intermediary – a financial intermediary” (Pozen, 2011).

By investing in a fund, you invest in the knowledge and expertise of someone else, namely the fund board and the appointed service providers, at the expense of your own management control and influence on your investments (Stumpel, 2014).

There are three types of pooled vehicle structures; open-end funds, closed-end funds and unit investment trusts. These three structures vary in the variability in the number of shares, the associated trading mechanism, life span, degree of professional management, costs to investors, size minimums and level of regulation (Stumpel, 2014).

**Open-end funds (mutual funds)**

An open-end investment fund is generally accessible to anyone who wants to invest the minimum of the required investment and allows the investor to sale and purchase at any moment. “By purchasing the shares of the fund, the investor achieves the legal position of a joint owner of the fund assets and is entitled to participate in the surplus of the fund” (Bernardt, 2013). The total amount of the investment in an open fund is not limited. Open-ended funds can be infinite or finite, but in general they have an infinite life span. An open-ended fund is also known as a ‘mutual fund’ since the shareholders share the costs and benefits.

**Closed-end funds**

A participation in a closed-end fund means that the investment management firm takes the legal position of formal owner of the assets in the fund. The fund closes as soon as all available shares are sold. These shares are entitled to transfer to another person. The ability to trade within the funds, while leaving the funds size unaffected, is known as secondary trading (INREV, 2012b). So, this is a pool of assets that normally does not fluctuate in size. According to INREV, most closed-end funds are non-listed vehicles. They have a finite life span with a fixed number of shares, which causes a limited liquidity.

**Unit investment trusts**

An Unit Investment Trust (UIT) differs significantly from the other two structures, since UIT’s do not employ a party or person who manages the investments (Stumpel, 2014). So, not an on-going management or board of directors. UIT’s have a fixed number of units (defined at the start of the trust), like the closed-end structure. But the investors are allowed to redeem their units any time, so a UIT can be labelled as a hybrid investment vehicle (Pozen, 2011).

The three fund structures with the associated characteristics are summarized in figure 20 on the next page.
5. Fund management

“The fund manager typically acts as the general partner in and runs the operations of the fund and is expected to act in the best interest of the investors.” (INREV, 2012b)

Why investing into indirect non-listed real estate investment vehicles?

According to CBRE (2013), the most important reasons to invest in non-listed real estate investment vehicles are:

*Most important advantages (see figure 21)*
- Access to expert management
- Access to specific sectors
- Diversification benefits (lower risk)

![Figure 21: Reasons to invest in non-listed real estate vehicles, (CBRE, 2013)](image-url)
But there are some disadvantages too (INREV, 2012):

**Disadvantages**
- Structure can become quite inefficient and costly
- Double layer of management fee
- Giving away control and management of real estate (relying on external partner)
- Lack of liquidity / lack of influence on buy and hold decisions

Real estate fund management requires *transparency and integrity* in order to be competitive with other asset classes (INREV, 2012).

**Like minded versus control and involvement**

One of the most challenging obstacles for investors when investing in a non-listed real estate investment vehicle is the alignment of interests with the fund manager.

The real estate investment market offers varying products to serve the different investor needs. These different investment strategies and goals will make it easier for investors to select a fund with managers that will align with their investment strategy wishes. This iterative process is intended to improve the alignment interests. Most funds started by the fund manager in collaboration with the (potential) investors while the fund manager will more likely succeed in raising the required capital for the fund (Stumpel, 2014).

Since the financial crisis of 2008, many fund investments are underperforming and lost significant value. ‘The key lessons investors took away were to seek more control & involvement, to better be able to secure the alignment of interest with the relevant fund managers after investments have been made’ (INREV, 2012).

This also resulted in the preference for like-minded co-investors. ‘Therefore, investors seek like-minded co-investors for more control & involvement over their investment and to underwrite the manager but also its co-investors. This will obtain the investors comfort that the co-investors are not only sufficient likeminded at the outset but also throughout the lifespan of the PPV’ (INREV, 2012).

<table>
<thead>
<tr>
<th>characteristics</th>
<th>Investor</th>
<th>Fundmanager</th>
</tr>
</thead>
<tbody>
<tr>
<td>return</td>
<td>maximum</td>
<td>max fee, but at expense of return</td>
</tr>
<tr>
<td>holding period</td>
<td>minimum (higher IRR)</td>
<td>maximum (higher fee)</td>
</tr>
<tr>
<td>risk</td>
<td>minimum</td>
<td>not undesired LTV↑ AuM↑ Fee↑</td>
</tr>
<tr>
<td>control</td>
<td>maximum</td>
<td>minimum</td>
</tr>
<tr>
<td>co-investment</td>
<td>preferred (alignment)</td>
<td>rather not</td>
</tr>
<tr>
<td>liquidity</td>
<td>maximum</td>
<td>difficult, asks for transparency</td>
</tr>
<tr>
<td>buy/sell assets</td>
<td>conform strategy</td>
<td>fee’s Assets under Management</td>
</tr>
</tbody>
</table>

Figure 22: Possible conflicts of interest investor and fund manager, based on (CBRE, 2013)
2. THEORETICAL FRAMEWORK

The theoretical framework covers seven paragraphs of the literature study conducted. This theoretical framework forms the context for the empirical part of the study and concludes with a framework with the most important findings and identified knowledge gaps.

The theoretical framework covers the following topics: supervision of the financial markets, the importance of a transparent market, the impact of more supervision on financial markets, objectives of AIFMD, AIFMD, impact on real estate fund managers, a critical reflection of AIFMD and the framework.

2.1 SUPERVISION OF THE FINANCIAL MARKETS

2.1.1 Origins and causes of the recent financial crisis

The European Commission made a regulatory framework for the regulation of alternative investment funds, due to the recent financial crisis of 2008. This regulation, the Alternative Investment Fund Managers Directive (AIFMD) focuses on the managers of these funds. The focus on the managers is based on the belief that financial institutions acted recklessly and dared short-term engagements, bearing too high risks to the extent of too much trust. The theoretical framework starts with an overview of the symptoms and causes of the recent financial crisis, to understand the preamble of the AIFM-Directive.

Symptoms of the recent financial crisis

Several symptoms of a financial crisis proceeded before the big losses of banks and other entities began. In the first place, significant market failure was detected. This can be claimed as an essential financial crisis symptom. At the start of the financial crisis, the price mechanism failed (the equilibrium of demand and supply). The prices of loans and other credits did not reflect a realistic notion of their real value (Bernardt, 2013). In 2008 the real worth of the loans and other credits was revealed and investors started worrying about their money. The investors decided to reclaim their money, but the credit institutions were unable to repay this volume all at once. As a result, many credit suppliers became insolvent (Hull, 2010).

The second symptom, which first occurred in the U.S., was that many consumers who received their mortgage loans at prices that did not match the actual worth of the underlying property and a increase in interest rate. Consumers were unable to repay these mortgage loans immediately. As a result, creditors asked these consumers to leave their homes. As a consequence of this, there was a huge surplus of demand for properties that directly led to a dramatic drop in real estate prices. This effect continued until 2011. This effect was the burst of the so-called credit-bubble (Bernardt, 2013).

A third symptom was the crisis of liquidity and trust. The willingness of serious credit suppliers (banks) to borrow and grant credits, dropped dramatically. The supply of credit is essential for the functioning of the economy. The costs of capital increased and many companies faced a dramatic pressure on liquidity. Because of the insufficient transparency of financial products the financial sector has lost its trust in each other.
On the 10th of September 2008, the biggest bank of America, The Lehman Brothers, had to close its doors, because the bank was unable to fulfil its payment obligations. The decision of the US government not to save Lehman Brothers, caused insecurity and panic in the financial sector. This fall revealed one of the most important reasons of the profitability of private banking: “Whereas the private investors tend to make short-term deposits, the corporations normally ask for long-term credits. Holding longer-term assets than liabilities and thus enabling the non-bank sector to hold shorter-term assets than liabilities, is probably one of the key functions of the banking system.” (Bernardt, 2013) The credit institutes combined this system with borrowing money at the lowest conditions and lending money at the highest interest rate possible.

Core causes of the financial crisis

To understand the design of the AIFM-Directive it is necessary to elaborate on the supposed core causes that led to the recent global financial crisis.

Too high leverage, many short-term lendings, insufficient risk-management, excessive debt and a lack of transparency are key factors of the recent financial crisis. The financial instability of institutions involves collapses and a systematic failure of the financial system. Many credit institutions were large counterparties of other firms. The default of one financial institution that leads to failure of others is called systemic risk. After the collapse of Lehman Brothers, many other institutions came into problems, also other sectors than banking experienced problems.

The insufficient transparency of financial products can be seen as the initial point of the realisation of systemic risk. The transnational securisation caused these insufficient products. If someone doesn’t understand a product, he cannot estimate the associated risks and cannot take measures to develop appropriate safeguarding systems. The innovation of financial products minimised the transparency of the products, which is essential for an effective protection of the investors. Many financial institutes bought these new, innovative financial products, which they didn’t (fully) understand. They failed to implement an appropriate risk management. As result, the recent financial crisis hit these financial institutes dramatically (Bernardt, 2013).

Next to these insufficient financial products, there were also a lot of systems of credit intermediation that were off the radar. This is called shadow banking and Bernardt defined this as follows: “The system of intermediation that involves entities and activities outside the regular banking system”. (Bernardt, 2013) Shadow banks were having almost the same business model, running almost the same transactions as banks in the regulated banking sector. These unregulated banking activities caused and incurred a lot of risks.

Another significant core cause of the crisis is the false structure of incentives. Managers of financial institutions set a strong focus on short-term capital gains. These short-term capital profits increased the volume of systemic risks and a loss for the firm itself. These risks were unacceptably high. (Hull, 2010)

Closely related to the false structure of incentives is the remuneration design of directors of financial institutions. The remunerations for directors had a too-high variable share, which led to a false structure of incentives. Directors of firms could earn an extraordinary remuneration if their decisions and actions directly turned out in an extraordinary short-term yield for the firm. This short-term yield involved high risks. This remuneration policy was also common in the investment-banking sector, where systemic risk is realised (Hull, 2010).
Low interest rates and too easily available capital were the basic conditions for the big asset bubble in the US. For a too long time, the US government ignored the rise of this bubble. In addition to this, the public debt has increased enormously between 1978 and 2007. The failure in effectively supervising the mortgages and the financial markets were essential for the occurrence of the recent financial crisis (Bernardt, 2013).

2.1.2 Measures (from 2008)

As described, there are several core causes for the recent financial crisis. Most of these causes were driven by human behaviour. The purpose of the regulation of banks is to ensure that a bank keeps enough capital for the risk it takes. Regulation doesn’t make it possible to eliminate the possibility of bank failing, but policy makers want to make the probability of default very small (Hull, 2010). After the financial crisis of 2008 the European Commission took several actions to regulate financial sectors. Until the outbreak of the financial crisis of 2008, the alternative investment segment was not regulated in a specific and targeted way (Bernardt, 2013). Only some countries had regulations on country level.

Banking sector

The banking sector and its regulations are discussed because this sector is closely related with the (real estate) alternative investment fund sector. Banks often finance AIFs and some banks have (or had) (real estate) alternative fund management departments.

As pointed out by Bernardt: “As probably the most important and influential international regulatory framework, the Basel Capital Accord sets regulatory capital standards for banking institutions and for establishing the principle of consolidated supervision based on home country control and mutual recognition, as set forth in the Basel Concordat.” (Bernardt, 2013) Basel I came into force in 2004.

Basel II

In the US, the Basel II capital requirements apply to all internationally active banks. In Europe, Basel II applies to all banks and securities companies. Basel II is based on three pillars and came into force in 2007.

1. Minimum capital requirements
The minimum capital requirement of Basel I remain unchanged. Banks hold a capital equal to 8% of the risk-weighted assets. Noteworthy to say, discussions at the moment are about 3-4%.

2. Supervisory review
Supervisors are required to encourage banks to develop and use better risk management systems and to evaluate on these processes. The supervisors should evaluate risks that are not covered by pillar 1.

3. Market discipline
Pillar 3 imposes banks to disclose more information about the way they allocate their capital and risks. Shareholders and potential shareholders will have more information about the decisions they take. (Hull, 2010)

After the huge losses of the financial crisis of 2008, the Basel Committee has taken numerous actions. This resulted in the Basel III accord.

Basel III

Basel III can be seen as a response to the financial crisis of 2008.
The committee has revised the guidance for supervisors on the liquidity risk management assessment, on scenario planning and stress testing and increased capital requirements. In comparison with Basel II, Basel III aims at a more exact calculation of risk positions than the provision of equity equipment that corresponds with the real risk position of a company.

According to Bernardt: “Basel III focuses on a stronger self-regulation by enhanced methods to verify the risk of a corporation and the consideration of credit risk minimisations, by securitisation and transfer of credit risks.” (Bernardt, 2013)

**Insurance companies and pension funds**

**Solvency II and IORP II**

Solvency II is a EU regulatory framework for the regulation of insurance companies. The political compromise is not yet reached; the earliest likely implementation date has shifted to 2016. In 2012 almost similar legislation was proposed for pension funds: Institutions of Occupational Retirement Provisions Directive (IORP II). Solvency I calculates capital only for underwriting risks, Solvency II will also consider investment and operational risks. The overall structure of Solvency II is similar to Basel II. Pillar 1 consists of the quantitative requirements (capital requirements), pillar 2 sets outs the requirements for the governance, risk management and the supervisors, pillar 3 focuses on disclosure and transparency requirements (Hull, 2010). Respondents of an INREV research believe that Solvency II will fall short in reducing systemic risk and market volatility. They also believe that the Solvency II goals may come at the cost of slowing down the economic recovery (INREV, 2013a).

**Alternative investment sector**

**Wft. (Wet of financieel toezicht)**

The Wft. is a Dutch legislation that came into force January 2007, to ensure more supervision on the financial markets. In the Netherlands, the AIFMD is mainly a modification of the Wft. Some Dutch AIFMs already had to comply with the Wft. For these AIFMs it is easier to comply with the requirements of the AIFMD, but they still have to change a lot for AIFMD compliance.

Until the outbreak of the financial crisis of 2008/2009, the alternative investment segment and the private equity segment in particular, was not regulated in the European Union in a specific and targeted way (Bernardt, 2013). AIFMD applies to fund managers managing an AuM of € 100 million (incl. leverage) or € 500 million (unleveraged). The directive is primarily intended for professional investors, but also affects retail investors within the scope. AIFMs working for retail investors also have additional national regulations. Thus, AIFMD is the basis for AIFMs (in scope) and AIFMs working for retail investors have additional national rules (Wft. in the Netherlands).

According to a research of BNY Mellon, the use of alternative investment funds has grown over the last years. Because of this growth, it seems to be even smarter to tighten the supervision on this sector (BNY Mellon, 2014).
Real estate sector

Valuation rules
The Dutch supervisors (AFM and DNB) want to have more insight and control on the real estate loans, and therefore also in the market value of the real estate in relation to the loans. DNB, spurred by the European Central Bank, has stringent requirements with respect to the risk-analysis of real estate loans provided by Dutch banks. Banks are required to make more frequent and higher quality valuations of their assets, with the aid of external valuers (Zadelhoff, 2014). As illustration, PwC placed a graph in their annual report ‘Emerging Trends in Real Estate’ that showed 59% of the respondents think prime assets were overpriced (PwC, 2014).

The sector itself also started initiatives too improve the transparency and reliability of real estate valuations. The PTA (Platform Taxateurs en Accountants) has proposed 28 recommendations that ensure a quality boost in the real estate valuation sector in the Netherlands. Valuations of high quality contribute to the confidence in the market. Secondly, supervisors want more disclosure and transparency regarding real estate valuations. They want more disclosure about which references and data are used in order to achieve the estimated market value. This will create more reliability of the valuations. Some investors are hesitant to share this information due to a possible loss of competitive advantage or because of a misinterpretation of non-professionals (JLL, 2013).

Reliable valuations of properties are very important in the real estate market; it is used in buy, sell, and loan investment-decisions and also in the leasing market valuations are often used. AIFMD requires independency of the valuer. This will improve the reliability of the valuations since the chance of conflicts of interests is reduced.

An initiative to stimulate the transparency of valuations is StiVaD. The purpose of StiVaD is to promote transparency on the real estate markets by building an investment-transaction database. The information in this database has to strengthen the validation of valuations. StiVaD already has 28 participants that share their transaction information in the database. The four fund managers involved in this research all join the StiVaD initiative.
To conclude, as reaction on the core causes of the recent financial crisis several actions were taken by (EU) policy makers in order to make the probability of default less likely.

The blank boxes do not mean there is no regulation in this segment. This segment is simply outside the scope of this research.
2.2 THE IMPORTANCE OF A TRANSPARENT MARKET

The importance of a transparent market is one of the main incentives for policy makers to regulate the (financial) markets. In this paragraph, the importance of transparency in the real estate market is described. “Market transparency” is defined, the functions of transparency in the market will be explained and a research of JLL shows the transparency ranking of the Dutch real estate market.

Definition of market transparency

The definition of market transparency as pointed out by Investopedia:
“Market transparency is the extent to which investors have ready access to any required (financial) information about a product, such as price levels, market debt and audited financial reports. Classically defined as when “much is known by many”, transparency is one of the silent prerequisites of any free and efficient market.” (Investopedia, 2014)

Market transparency in relation to information flows from institutions to their investors is also known as ‘full disclosure’. With full disclosure of complete information, investors are able to make well-considered decisions (Scholtes, 2012).

Functions of (real estate) market transparency

One of the fundamental ingredients of a transparent real estate market is the availability of a wide range of reliable, high-quality information on market fundamentals such as valuation data, transaction prices, rental prices, demand and supply across multiple sectors, in order to favour the market dynamics (JLL, 2012).

For investors in real estate, making money is related to taking risks. In addition to structural and cyclical economic risk, investors in real estate assets have to deal with structural property market risk and cyclical property market risk. (G. I. CBRE, 2013b) In addition to these risks, real estate assets are non-flexible goods, which contributes to the risk of the property. A lack of knowledge, (unavailability of information) on the real estate market can cause unforeseen risks for the investor, since they are not able to make a well-considered decision based on complete, reliable information. More transparency of the market could take away part of these risks. Investors will be better protected when they are aware of the risks they possibly take and will be able to make better investment decisions.

The results of the global transparency index of JLL confirmed the relationship between real estate investment volumes and transparency. According to the research of JLL: “Rising levels of transparency are associated with higher levels of foreign direct real estate investment - a powerful incentive encourage the free flow of information as well as the fair and consistent application of local property laws.” (JLL, 2012) Investors declared the lacking transparency and market information as one of the most important reasons not to invest in (non-listed) real estate funds (INREV, 2013a). However, respondents of this research of INREV think this point has improved from 2008 (see figure 28 on the next page).
Besides the positive effect on investment volumes, transparency in a market helps to avoid fraud and corruption that inevitably occurs when a select few have access to important information, allowing them to use it for personal gains. Caused by occurred scandals, governments will pay more attention to incentives that engender off radar payments.

The democratic value of a transparent market also plays a role. The system is more democratic if all market participants can base (investment) decisions of value on the same data (Scholtes, 2012). Reduced price volatility also tends to be a by-product of market transparency since all market participants can base their decisions on the same information. (Investopedia, 2014)

Several researches have shown that the transparency of the real estate market has improved over last years. However, the pressure to further improve the transparency on the financial markets is high due to the recent financial crisis. Regulators, central banks, foreign investors and other professionals will continue to require more transparency in the real estate sector, supported by the availability and transfer of information and data. Better transparency in the market will ensure more public data on debt and gives the possibility to monitor lenders more closely. A more transparent market will ensure less (unforeseen) failure on the financial markets.

### Transparency ranking of EU countries

According to the global transparency study of JLL, the Netherlands has one of the most transparent real estate markets in the EU (and in the world), although public opinion may oppose that view. This ranking is based on the composite score of the country (see figure 30). Several frauds occurred last years, which had a large impact on the market and caused bad publicity of the Dutch real estate market. This bad publicity could work out negatively on foreign investors. Consider the market dynamics and investor protection in the countries ranked as semi, low or even opaque transparent.

<table>
<thead>
<tr>
<th>Year</th>
<th>#1</th>
<th>#2</th>
<th>#3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
<td>LIQUIDITY</td>
</tr>
<tr>
<td>2013</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>COST ASSOCIATED WITH INVESTING IN FUNDS</td>
</tr>
<tr>
<td>2012</td>
<td>MARKET CONDITIONS</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
</tr>
<tr>
<td>2011</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS</td>
</tr>
<tr>
<td>2010</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS</td>
</tr>
<tr>
<td>2009</td>
<td>MARKET CONDITIONS</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
<td>TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS</td>
</tr>
<tr>
<td>2008</td>
<td>TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>ALIGNMENT OF INTEREST WITH FUND MANAGER</td>
</tr>
<tr>
<td>2007</td>
<td>TRANSPARENCY AND MARKET INFORMATION OF NON-LISTED FUNDS</td>
<td>AVAILABILITY OF SUITABLE PRODUCTS</td>
<td>COST ASSOCIATED WITH INVESTING IN FUNDS</td>
</tr>
</tbody>
</table>

Figure 28: Most important reasons for investors not to invest, (INREV, 2014)
Transparency Index

A research of JLL (JLL, 2014) set out the global real estate transparency index in 2014. They determined the grade of transparency in real estate markets all over the world. The countries are ranked with a composite score that comprises 5 sub-indices: performance measurement, market fundamentals, governance, regulations and transaction process. Each index contains a number of transparency topics (see figure below).

Compiling the Composite Transparency Index

In total there are 115 transparency measures that are grouped into 13 topic areas. These topic areas are grouped and weighted into five broad sub-indices, namely:

- Performance Measurement 25%
- Market Fundamentals 20%
- Governance of listed Vehicles 10%
- Regulatory and Legal 30%
- Transaction Process 15%

The transparency index scores range on a scale from 1 to 5. A country or market with a perfect 1.00 score has total real estate transparency; a country with a 5.00 score has total real estate opacity. JLL weighted the Regulatory and Legal as most important sub-index, as can be seen above (JLL, 2014).
Real estate transparency by topic area

As can be seen in the figure below, the topics grouped in the ‘Regulatory and Legal’ sub-index have the lowest score for transparency. This means that, on average, the topics in this index have the lowest score for transparency on the global real estate markets. Important is that unlisted fund indices has by far the lowest score, according to this research. Improvements can be made on this topic. The question is whether AIFMD is going to bring this improvement on the European real estate markets.

Real estate transparency by sub-index for the Netherlands

In four out of five sub-indices the Dutch real estate markets is ranked in the twenty most transparent markets. Remarkable is that in the sub-index ‘Regulatory and Legal’ the Netherlands not made it into the top 20 most transparent real estate markets (see appendix 1).

However, on four out of five sub-indices the Dutch real estate market is ranked as highly transparent. So, the overall score is that the Dutch real estate market is highly transparent.

Figure 30: Real Estate Transparency by topic area, (JLL, 2014)
Growing expectations of transparency in the real estate markets

Investors, developers and corporate occupiers are demanding (and expecting) ever-greater levels of real estate transparency, in terms of regulatory and legal enforcement, financial disclosure, fairness of transaction-processes and access to high-quality market data and performance benchmarks. At the same time, governments have a growing recognition that in-transparent real estate markets not only hinder inward investments but also has deep impact on the quality of life of its citizens and their relationship with the government (JLL, 2014). Fraud and corruption scandals force governments to pay much greater attention to regulatory enforcement. In addition to this, ‘open data’ policies, supported by technological advances and initiatives such as StiVaD (see 2.1.2 on page 44) are playing a greater role in boosting transparency levels.

Figure 31: Europe’s Real Estate Transparency Index, (JLL, 2014)

Figure 32: Global average change in transparency score, (JLL, 2014)
2.3 THE IMPACT OF MORE SUPERVISION ON FINANCIAL MARKETS

More supervision on financial markets will evoke different reactions and opinions. For parties who have to comply with the increased supervision it probably will cause costs and effort. Other parties, investors for example, should benefit from increased regulation since their protection is more ensured, but in the end they also pay a price. This chapter will elaborate on the effects of (increased) regulation, the costs and benefits of more supervision, timing of the implementation of a regulation and the future of risk management.

Academics tend to be divided into two opposite camps when it comes to regulation (of financial markets). On the one hand, there are the extreme libertarians, who oppose any type of regulation. On the other hand, there are the interventionists who believe pervasive market failures need massive intervention (Zingales, 2004). As stated by Zingales, a sceptical middle ground is advocated.

The appearance of an externality is not a sufficient reason for regulation. Zingales says: "Apparent externalities might be due to existing regulation and even when they are not, they can be effectively dealt with by the market system unless transaction costs are very large. When these costs are indeed large there is scope for welfare enhancing regulation." (Zingales, 2004) Thus, if the market system isn't able to deal with the externality, regulation can be a tool.

Another point of view is from the English political philosopher, Jeremy Bentham (1797). He was convinced of strict monitoring of human behaviour. He stated: "The better they are watched, the better they behave". He designed a circular shaped prison whereby the prisoners on the edges weren't able to observe the guardians in the centre of the circle. He claimed that actual control wasn't needed, the awareness of the possibility of being controlled, causes discipline (Scholtes, 2012).

Regulation reforms and greater disclosure and reporting requirements often occur with international crises and corporate fraud. Usually, when a financial crisis does occur, it first attacks the unregulated sector. When distrust occurs, the depositors in, and the creditors to the unprotected sector withdraw their funds in this situation and place these in the controlled, regulated sectors. This will exacerbate the pressure on the unregulated sector, which is then forced into fire sales of assets. (Markus Brunnermeier, 2009) The greater constraints on doing business in the regulated sector almost guarantees a cycle of flows into the unregulated part of the financial system during periods of expansion and euphoria with sudden and dislocating reversals during crises. (Markus Brunnermeier, 2009)

The predominant task of financial supervisors is to determine which financial institutions can be allowed to fail, and which cannot. The financial institutions so big and connected that their failure would cause risk for the key financial markets, should be specifically regulated.

2.3.1 Effects of (effective) regulation

The more effective a regulation becomes, the more unpopular it will be, since it will bother the regulated with constraints to doing their core business. The aim of effective regulation on financial markets is to provide incentives for financial institutions to internalize risk spill overs. An effective regulation possibly leads to the following claims:
The regulation is:
1. Ineffective and unfair, resulting in disintermediation
2. Ineffective and cost enhancing
3. Complex and capable of being subverted (Markus Brunnermeier, 2009)
1. The first problem with effective regulation is that it will cause **disintermediation**. According to Brunnermeier, the institutions operating in the unregulated sector have a stronger competitive position than those within (since they are able to run their core business without strict rules and related costs). For the parties in the regulated part of the sector, this can be described as unfair. As consequence, business will be bound to flow from the regulated to the unregulated, so-called disintermediation will occur. In the unregulated sector the transparency and availability of reliable information is less. This movement enhances the resulting financial booms and crises (Markus Brunnermeier, 2009).

Trying to formulate a regulation that effects only some of the time, when additional restraints are really needed (in order to ensure the costs and benefits of the regulation are not too far out of line) is a way to limit the potential extent of disintermediation.

2. The second criticism of effective regulation is that it often is **inefficient and leads to high(er) costs**. An effective regulation often causes an inefficient implementation and running process, often associated with high(er) costs. These extra costs will probably be borne by the investors self. These costs the regulated are required to make under the regulation, will influence the cost of capital of the firm, and is a competitive disadvantage (in comparison with the unregulated). It also causes a possible entry barrier for start-ups. On the other hand, preventing the firm for risks with these extra costs can be a competitive advantage in times of uncertainty.

Regulators’ aim of the exercise is to prevent the key financial institutions (which are too big to fail) from overstretching themselves, and so failing, rather than bothering any financial institution from doing business.

3. “The more effective a regulation is, the greater the incentive to find ways around it. With time and considerable money at stake, those within the regulatory boundary will find ways around any new regulation” (Markus Brunnermeier, 2009).

This **reluctant behaviour** of market parties in the regulated sector, will lead to increasing **complexity**, as the regulated find loopholes, following the regulators then slowly move to close. Basel I has turned into Basel II; Solvency I into Solvency II. With all the adjustments to close the founded loopholes, the process becomes even more complex, and almost certainly without becoming less porous.

Supervisors must try to indicate how the regulated financial institutes are seeking to avoid the constraints placed upon them. And if they are not doing so, it may be a sign that the regulation is ineffective (Markus Brunnermeier, 2009).

**2.3.2 Costs and benefits of more supervision**

As pointed out by Christian Leuz: “Despite the importance of market transparency, there is limited research on the costs and benefits of financial reporting and disclosure regulation” (Christian Leuz, 2008).

The study of Leuz and others focuses specifically on the consequences of reporting and disclosure regulations in the financial sector. To evaluate the economic consequences of reporting and disclosure regulation, firm specific as well as market-wide effects are relevant. The market-wide effects of the disclosures of the firm are relevant for them, since they capture costs and benefits that firms may ignore or not internalize. These market-wide effects have the possibility to enforce corporate financial reports and disclosures. The market-wide effects also incorporate systemic risk (Christian Leuz, 2008).
Continuing on this point, all institutions with a significant systemic risk factor should be subject to micro-prudential regulation (examining their individual risk characteristics) and to macro-prudential regulation, related to their contribution to systemic risk. This macro-prudential regulation should be countercyclical and especially focus on avoiding bubbles whose bursting can impair the financial sector (Markus Brunnermeier, 2009).

Benefits

In studies, financial reporting and disclosure are often suggested to increase firm value by improving managers’ decisions or by reducing the amount of remuneration for managers. Corporate disclosures can improve the production of the managers (incentive for remuneration) and investment decisions if firms coordinate with respect to the allocation of capital (with public disclosures). These indirect effects will lower the costs of capital for the firm (Christian Leuz, 2008).

Another feature of financial reporting and disclosure regulation is that it may stabilize financial markets by limiting asset bubbles. An asset bubble arises in periods when firms trade at prices that significantly deviate from the fundamental value. The existence of these bubbles can harm an economy by causing a significant misallocation of capital. (Christian Leuz, 2008) Financial asset bubbles often coincide with times of financial innovation (these new, innovated products are more difficult to price appropriately). According to Leuz, mandatory rules for reporting and disclosure on the financial markets can: limit the asymmetric information among market participants, which counteracts the formation of asset bubbles, and, can force firms to talk about fundamentals such as verifiable current cash flows, profits, net assets, leverage, remuneration rather than firms’ aspirations for (individual) future success (Christian Leuz, 2008).

The implementation of a new or revised regulation costs a lot of money and effort for the government as well as for the corporate environment. These costs will be less criticised if they ensure risk avoidance. For institutions labelled as ‘too-big-to-fail’, control of the (systemic) risks is of great importance (for the whole economy). For these parties, the costs of regulations are allowed to be higher in order to prevent them from failure (and systemic risk).

Costs of financial regulation

Julian Franks (1998) wrote an article about the direct and compliance costs of financial regulation. He estimates both the direct and indirect costs of regulation for major sectors of the UK financial services industry. He also compares UK direct costs with those for the US and France. Franks distinguishes three types of financial markets; the securities market, the investment management/UCITS market and the insurance market (J. Franks, 1998). The comparison between the regulatory direct and indirect costs for the securities market and the investment management market is useful to understand the relation between these sectors.

As can be seen in figure 33, the regulatory costs per employee are way lower for the investment management and unit trusts market than the costs per employee for the securities market. Although this is a source of 1998, it provides an insight in the ratio of regulatory costs of these financial markets. He also investigated the regulatory costs as % of the NOE (Net Operating Expenses) for the securities market and as % of the funds under management for the Investment Management market (IM) (see figure 34). These two tables show that the regulatory costs for the IM-market were substantially lower than the regulatory costs for the securities market in the late nineties.
The costs for securities trading and life insurance have even further increased after the implementation of Basel II and Solvency. For the Investment Management sector these costs did not, until AIFMD was implemented.

### 2.3.3 Timing

The design of a financial regulatory framework is not straightforward and definitely not easy. As pointed out by Brunnermeier: “When everyone is baying for more, tougher regulation, it is not needed, (because everyone is risk averse). When such regulation is badly needed, no
one wants it (since the good times are expected to roll on). This suggests that financial regulation should be focussed, primarily rule-based (because discretion will be hard to use during periods of boom/euphoria) and time and state-varying (light during normal periods, increasing as systemic threats build up)." (Markus Brunnermeier, 2009)

Observing the recent financial cycle, we first saw a huge expansion of credit, a massive rise in leverage during the upswing followed by decreasing liquidity and major deleveraging, and after all, effects on the real economy, due to the financial crisis (Markus Brunnermeier, 2009). The regulation on financial markets at the time of the recent crisis wasn’t able to prevent the crisis. The regulatory system by then (e.g. Basel II) not only did too little to restrain the upswing, but was also exacerbating the downturn. Thus, this regulation is highly pro-cyclical.

Concluded can be, that regulation should be designed to bite occasionally. A system that restrains credit expansion and excess leveraging in the upswing, and relaxes the requirements when managers are more risk averse and cautious in downturns is recommended (Markus Brunnermeier, 2009). The asset-price and credit cycles vary from country to country (even from region to region) as well as from time to time. It is far from clear that the same regulation should apply in economies with different existing institutional infrastructures or at different economic stages of economic development/recovery (Christian Leuz, 2008).

Although the principles of counter-cyclical regulation should be universal, its application would lead to differing levels in each area (Markus Brunnermeier, 2009). Therefore, a shift of emphasis in regulatory powers towards the host country is proposed.

The AIFM-Directive is designed as reaction on the recent financial crisis of 2008. The European Commission set the legal focus on fund managers, as these launch and distribute the financial products and decide on the investment strategy, which can bear systemic risk (Bernardt, 2013). It is the question whether this is an appropriate approach. And are the requirements good enough to prevent a future crisis of this scale? Is the timing right? Most of the EU countries, which all have to comply with the directive, are at the beginning of economic recovery, and within the EU these levels of recovery are quite different. It is very likely that the AIFMD, which causes a major impact on the fund managers, will slow down the developments on the financial markets.

2.3.4 The future of risk management

BNY Mellon has conducted a survey on the future of risk management. The results pointed out that 83% of the respondents believe risk management will play an even greater role in future than it does today. This trend is reflected in several revised regulatory frameworks and ambitions of the European Commission to be in more control of the European economic governance (Mellon, 2014). The extensive, growing requirements for risk management on the financial markets will have a cost-impact. High demanding reporting requirements, new risk models and new techniques cause these raising costs. These raising regulatory costs (which also contain risk management and compliance costs) have an impact on the expense ratios of the firms. Over last years we have seen a substantial rise in regulatory, compliance and risk management costs (particularly in the banking sector). It is the question whether this ratio between supervision and associated costs is in- or out of balance.
2.4 THE ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

This paragraph elaborates on the directive itself. The definitions concerning the directive can be found, the general concept will be explained and the one-size-fits-all approach of the directive will be discussed.

2.4.1 Definitions of the AIFMD

The AIFM-Directive defines an:

Alternative investment fund manager (AIFM) as:
“The alternative investment fund manager is a legal or natural person whose regular business activity consists of the administration of one or more alternative investment funds.” (Article 3 paragraph 1 lit. c AIFMD)

“By investing in funds, the (lower-) income brackets could share the advantages of the capital market and obtain well-designed opportunities of diversification. The investor saves time and transaction costs because the fund manager overtakes the professional choice of assets and the professional market observation.” (Bernardt, 2013)

Alternative Investment Fund (AIF):
“An AIF is an organism for the collective financial investment, including its investment branches that do not underlie the Undertakings for Collective Investment in Transferable Securities (UCITS).” (Article 3 paragraph 1 lit. 2 AIFMD)

AIFMD aims at the regulation of each legal or natural character independent of her or his legal entity responsible for the administration of an AIF that is not subject to the UCITS directive. Thus, the AIFMD does not apply to the UCITS funds.

Undertakings for Collective Investment in Transferable Securities (UCITS):
“These non alternative funds can be marketed within all countries that are part of the European Union, provided that the fund and fund manager are registered within the domestic country. The regulation recognizes that each country within the European Union may differ on their specific disclosure requirements” (Investopedia).

2.4.2 General concept and overview

The European Alternative Investment Fund Managers Directive (AIFMD) has been formulated as a response to the global financial crisis, which climaxed in the collapse of Lehman Brothers on 15 September 2008 (Bernardt, 2013).

In November 2008 the G20 leaders came together and concluded that a new regulatory framework was needed to secure a stable financial system. In order to do so, all significant financial market actors have to be subject to appropriate regulation and supervision for investor protection as well as financial market stability reasons.

The European Commission published the result of this conclusion in April 2009; a proposal for a Directive for Alternative Investment Fund Managers (AIFMD). This directive is a major EU regulatory initiative to extend appropriate regulation and supervision to the alternative investment fund management business.
The EU legislators finally agreed on the directive in October 2010 and it came into force on 21 July 2011. The EU Member States needed to transpose the new framework into national law by 22 July 2013 (Private Equity International, 2013).

The European Securities and Market Authority (ESMA) is responsible for the interpretation of the regulation. However, enforcement of regulations will be the responsibility of national agencies in cooperation with the ESMA. (The ESMA was created on January 1st of 2011) (Elsevier, 2013).

Last July marked the end of the transitional period. By then, all AIFMs in scope had to submit authorisation applications.

![AIFMD timeline](image)

Figure 35: The AIFMD timeline, ((Private Equity International, 2013)

According to a research of INREV, most of the managers of AIFs will manage a timely compliance with the AIFMD (INREV, 2013a).

![Timely compliance](image)

Figure 36: Timely compliance expectations, (INREV, 2013)

The European Commission set the legal focus on fund managers assuming that the financial crisis of 2008 was the consequence of wrongfully set incentives, which mainly concerned the fund managers remuneration. Fund managers launch and distribute financial products and also have the power to decide (to a certain degree) on the investment strategy that might bear systemic risk. The AIFMD essentially dictates the rules for the authorization, on-going
operation and transparency of fund managers that manage alternative investment funds (AIF) in the European Union.

There are more propositions for the future regulation of the financial markets. Most of them focus on an improvement of market discipline and the reduction of information asymmetries. The AIFM-Directive does include these objectives, but also aims at a strengthening of investor protection, market integrity, market efficiency and monitoring the capital accumulation.

The impact of the AIFM-Directive is significant and will change the regulatory framework for a huge spectrum of funds including hedge funds, private equity funds, infrastructure funds and real estate funds. The new rules not only affect the alternative fund managers, but also cause major changes for their depositaries, administrators, external valuers, accountants and regulators.

The directive meant for fund managers will also directly affect fund operations. Provisions such as fund risk profiles and portfolio liquidity will cause this. As stated by the European Commission, in return for regulation and more supervision, fund managers will be able to benefit from a passport to manage and market AIFs throughout the EU. Another benefit can be that investors, who will be better informed and protected under the AIFMD, decide to invest more.

**Split supervision**

The DNB (De Nederlandse Bank) and AFM collaborate in terms of supervising the financial markets, but each has its own task. The DNB is responsible for compliance with prudential rules, whilst the AFM is responsible for supervision of the conduct of the managers, transparent financial market processes and integrity (J. H. B. G. C. C. Destrée, 2012). According to the AIFMD, the DNB is allocated to control the compliance of real estate funds with respect to their financial obligations such as the solvency of the fund manager and the liability of insurance. The AFM is responsible for supervising the conduct of (real estate) AIFMs.

2.4.3 One-size-fits-all approach

**Various fund types**

The EU regulation effectively distinguishes EU investment funds into two types; UCITS-funds and AIFs. If a fund isn't qualified as UCITS, than it is an AIF. With this distinction it doesn't matter if a fund is open-, closed, listed or non-listed. It is a very simple, rough categorization. A regulation, which has its origin in the desire to regulate hedge-fund managers, is ultimately also mandatory for real estate fund managers (H. B. G. C. Destrée, 2012). In an interview Jeff Rupp, Public Affairs for INREV made clear that in the process of forming the legislation, the specifics of hedge funds and private-equity funds have mainly determined the AIFMD requirements (Jeff Rupp, INREV).

As mentioned before, AIFMD affects a wide spectrum of funds, including hedge funds, private equity funds, real estate funds and infrastructure funds. The alternative investment fund managers (AIFMs) of these varieties of funds are subject to harmonised rules, regardless of the fund type they manage. It’s a homogeneous approach to heterogeneous subjects.
The AIFMD scope includes managers of all non-UCITS funds, open- or closed end, no matter what legal form. This approach neglects the specific features of the different fund types, such as risk profile, liquidity, time horizon and investor type.

**AIFMD scope**

The calculation of the AuM (Assets under Management) is the key point in defining whether an AIFM is in scope of the AIFMD. The regulation specifies the method for calculating the total value of Assets under Management.

An AIFM is under scope of the AIFMD as:

- Total Assets under Management (AuM)
  - EUR 100 mln. (incl. leverage); OR
  - EUR 500 mln. (no leverage, closed-end in first 5 years)

When the AuM of a fund manager is exceeding these boundaries for longer than three months, the fund manager has to obtain the AIFMD authorization from the AFM.

**Open and closed funds**

AIFMD applies to open- and closed-end funds (see chapter Fund Industry, paragraph fund structures for a more detailed explanation of open- and closed-end investment funds).
2.5 OBJECTIVES OF AIFM - DIRECTIVE

AIFMD has found his origin in the aim to regulate the European alternative fund industry with all asset classes (except UCITS) and the fund managers in particular. As described in the research proposal, in the empirical part of this study the focus is on the effects for the investor. Are the AIFMD objectives; investor protection and transparency for the investor, realistic objectives? In this chapter the objectives of the directive will be described and reflected on with literature.

INREV conducted a research on the AIFMD topic before implementation and asked about the views on the benefits AIFMD is seeking to achieve. It has been found that the views on the investor benefits were by far the most positive (INREV, 2013a).

1. Investor protection by transparency and disclosure

The AIFMD objective ‘more investor protection’ has got positive consequences for several reasons. The importance of investor protection is founded in the ideas that this will result in less systemic risk, better investment decisions and more investment activities. A sensitivity analysis of Jamal Ibrahim Haidar showed the importance of investor protection, especially in the disclosure and transparency dimension, for long-term economic growth for all countries with differing economic and legal backgrounds. Thus, countries with stronger investor protections tend to grow faster than those with poor investor protections. (Haidar, 2008)

Another study proved that the quality of investor protection accorded to foreign investors is an important policy matter for attracting higher level of foreign equity portfolio investments. So, foreign investors prefer investing in markets that have stronger (foreign) investor protection rights. (Sunil Poshakwale, 2011) That sounds logical.

An AIFM is obligated to report information on a substantial list of items (available) to the company, its shareholders and employee representatives.

As intended by the directive, this disclosure will create more transparency for the investor. By creating more transparency for the investor, he should be able to make better investment decisions. But is this a plausible relation? Will more information lead to more transparency and better investment decisions in the end?
2. Strengthening of market integrity and market efficiency

The AIFMD aims to reduce systemic risk and the volatility of AIFs. The requirements on the remuneration, capital, valuations and depositary promise more control and less risk. As stated by the European Commission, since all AIFs will soon be licensed, there will be more choice for investors. The market integrity will be strengthened by the financial disclosure and reporting requirements, since there will be more reliable information available. Uninformed (or less informed) investors have to worry about doing business with better-informed investors. According to Leuz, “as result, the uninformed investors lower (increase) the price at which they are willing to buy (sell) to protect against the losses from trading with informed counterparties (Christian Leuz, 2008). This disrupts the market efficiency. Thus, more transparency in the market by financial disclosure will strengthen market efficiency.

3. Harmonized regulation in the European Union

Before the AIFMD implementation, the EU Member States had different levels of legislation on retail AIFMs. The institutional segment was not regulated in a particular way. Germany and France were already stricter in their regulations on these subjects. Sweden, UK and the Netherlands were starting from a zero-point regarding controlling AIFMs, and need much more effort to comply with the AIFMD requirements. AIFMD, which covers all member states, is a good step forward to a harmonized regulation in the EU. In an interview with Jeff Rupp, public affairs for INREV, he stated that this isn’t completely true. Member states interpret the AIFMD differently so it still won’t be completely harmonized. Cultural differences and various starting points regarding AIF legislation are the main causes of this (Rupp, 2014). However, the AIFMD is an important piece of legislation for the European economy and will create an internal market for asset management, but it will take time to equalize all member states. In the end, its success should foster the development of capital markets (Aramendia, 2013).

4. More investment-activities in the European Union (passporting)

While AIFMD imposes a stricter regulatory and supervisory regime, it also seeks to promote the internal market and facilitate cross-border operations by fund managers (INREV, 2013a). When an AIF is authorised by its national regulator (the AFM), the AIFM can specifically ask for a passport. This passport allows the AIFM to operate and market the AIF across the specific countries the passport was requested for.

Figure 40: Observable value in ‘passporting’, (INREV, 2013)

A study of INREV prior to the implementation showed that not all fund managers believe in a significant added value of the introduction of the passport. Figure 40 shows that the majority of fund managers believe that passporting has some value, about one-third believe it will bring a significant improvement and almost 12% believe there is no value at all. The percentage that believes there is no observable value, can be explained by parties who have established strategies and overcome legal, currency or language barriers previously and these had no plans to change, so these parties have no intention to market cross-border.
This outcome is a reality check for the policy makers that argue the passporting will be a major game changer for the fund industry and that it will eventually counterbalance the costs of having to comply with AIFMD (INREV, 2013a).

INREV also surveyed whether AIFMs thought the EU would become more or less attractive for non-EU investors. As can be seen in figure 41, almost one-third thinks AIFMD would make the EU a more attractive investment environment. However, 42% foresee no impact on non-EU investors as investment market. 24% of the respondents foresee a possible loss of attractiveness of the EU-market, related to additional costs and other burdens of compliance.

![Figure 41: Expected changes (INREV, 2013)](image)
2.6 REQUIREMENTS OF AIFMD

This paragraph elaborates on the requirements of AIFMD regarding valuations, the depositary, risk & liquidity management, capital requirements, transparency and disclosure, remuneration requirements and conduct of business principles.

The competent authority in the Netherlands, the Authority for Financial Markets (AFM), is responsible for granting the licences to the AIFMs. When applying for such a licence, an AIFM will have to prove that its processes are in line with the requirements and that its key personnel is fit and proper (J. H. B. G. C. C. Destrée, 2012). When an AIFM wants to market and manage an AIF in another EU member state, he has to apply for a passport separate for each AIF.

AIFMD defined an extensive set of requirements for the fund managers of AIFs. In figure 43 is shown which levels of playing field are involved, with a short elaboration on each point. Level 1 of the AIFMD contains the legal framework as set up by the European Commission, and is mandatory for each Member State. Level 2 is a more detailed version of Level 1, determined by the Member States separately.

Figure 42: AIFMD requirements, (KPMG, 2014)
Valuations

“AIFMD introduces the obligation for AIFMs to establish appropriate and consistent procedures for the proper and independent valuation of the assets of real estate funds." These valuations can be conducted by an external valuer or by an AIFM, as long as the valuer acts independently from fund activities.

“The AIFMs must ensure that the rules applicable to the valuation of assets and the calculation of the NAV (Net Asset Value) per unit or share in a real estate fund are laid down. Both the assets and the NAV must be valued and calculated at least once a year.” (Art.19 (3) AIFMD). For open-ended funds, the frequency shall be appropriate to the assets held and the redemption frequency. For closed-end funds, the NAV calculation shall be executed at the moment of an increase or decrease in AIF’s capital (KPMG, 2013). The NAV calculation frequency has to match the frequency of investor activity. This information also has to be reported to the shareholders.

Supervision of valuations

The valuations of the assets will be checked by the depositary and the accountant of the fund. The depositary also checks the process of appointment between the AIFM and the valuer. The valuation of assets is also supervised by the AFM, since the AIFMs must provide information on the valuation procedures periodically. The DNB also plays a role in the valuations requirement of the AIFMD. DNB focuses on the availability of proper valuations of real estate. This is important in relation to recovering confidence in the Dutch real estate market (J. H. B. G. C. C. Destrée, 2012). The availability of proper valuations will create clarity regarding the value of real estate, which will be important for investors who aim to acquire real estate.

Independent valuer

The valuation of funds’ assets can be conducted by an external valuer of by an AIFM, as long as the valuer acts independently from the fund activities. If an external valuer is appointed to perform the valuation, the AIFM must prove that the external valuer is registrated by law, competent to perform the valuation duties for that specific fund, and he complies with the requirements of the AIFMD (J. H. B. G. C. C. Destrée, 2012). The external valuer has got an unlimited liability. In case the AIFM performs the valuation itself, the task must be functionally independent from the fund management and the remuneration policy. So, no conflicts of interest in that matter. For small AIFMs, this will be almost impossible. A depositary cannot perform the valuation of the AIF, unless its depositary tasks are functionally and hierarchically separated from the tasks as external valuer.

Liability

The liability of potential insufficient valuations of the AIF and the unit holders lies with the AIFM, also in case an external valuer is appointed. Nevertheless, an external valuer can be liable for all losses suffered in case it can be proved he performs his task with intentional failure or negligence.

Depositary

Before adopting the AIFMD, a depositary was only mandatory for certain legal bodies, such as limited partnerships and mutual funds. Under AIFMD, the depositary must be established in the home Member State of the AIF. The depositary is obliged to act fairly, professional and independent, in the interest of the AIF and its investors (KPMG, 2013).
According to the AIFMD, the depositary has three primary duties:

**Cash flow monitoring**

“The depositary is responsible for monitoring the AIFs cash flows and for ensuring that payments from investors and all AIF cash are booked in cash accounts opened in the name of the AIF, or the AIFM or the depositary on behalf of the AIF.” (KPMG, 2013) The depositary is required to monitor the cash flows of the AIF on a daily basis, and obligated to identify significant cash flows that are inconsistent with the AIFs normal activity. When identified these significant, inconsistent cash flow(s), the depositary has to inform the AIFM, the Supervisory Board and in the end the AFM. This requirement as stated by the AIFMD, is very time consuming for real estate AIFs since there are many cash flows to monitor.

**Safekeeping and record keeping of assets**

The depositary is responsible for safekeeping of assets that can be held in custody (held in custody financial instruments), which include transferable securities, money market instruments and UCITS. He is liable for the restitution. The depositary is also liable for recordkeeping of assets not held in custody. These other assets include real estate. The depositary must verify the AIFs ownership of these assets (Mellon, 2014). For a more detailed description of assets held in custody and other assets, see appendix 2. The distinction is important, as it will directly influence the safekeeping duties and the depositary’s liabilities in case of loss (Jean Michel Loehr, 2013).

**Oversight of certain operational functions**

In order to ensure the AIFM acts in accordance with the national law and AIFMD rules; the depositary is required to maintain an oversight function. This depositary obligation should take into consideration the nature, scale and complexity of the funds’ strategy and the fund manager’s organization. The depositary has to perform ex-post controls and verifications of AIFMs processes and procedures.

**Liability of depositary**

The liability regime is depending on the type of assets. For assets held in custody (financial instruments) the liability is strict restitution. For other assets (real estate), the depositary is liable for negligence or fault for the valuation and ownership of assets, oversight and cash flow monitoring duties.

**Risk & liquidity management**

AIFMD describes that the risk management and portfolio management functions have to be functional and hierarchically separated. The AIFM is obliged to have adequate risk management systems to identify, measure, manage and monitor all risks to each real estate fund strategy. The AIFM also has to conduct an appropriate, documented, regularly updated due diligence when investing.
**Leverage**

The rules on leverage under AIFMD are intended for investor protection and stability of the financial system. Real estate AIFs using leverage are obliged to implement an appropriate system to manage liquidity. They will have to adopt procedures, which enables them to monitor the liquidity risk of a real estate fund and which ensure the liquidity of the investments to be compliant with the underlying obligations. These procedures have to be tested occasionally by means of stress tests (KPMG, 2013).

**Leverage monitoring**

There is a disclosure obligation towards DNB for real estate AIFs that are geared with leverage on a substantial basis. Gravenhorst and Destree summarized the disclosure obligations as follows: “They will be obliged to disclose information about, for example, the overall level of leverage employed by each of the real estate funds they manage and the breakdown between leverage arising from borrowing of cash or securities and leverage arising from financial derivatives. Information on the five largest sources of borrowed cash and the amounts of leverage received from those sources must be included for each of the real estate funds.” (J. H. B. G. C. C. Destrée, 2012) The AIFMs are required to demonstrate their leverage is reasonable (IPD, 2014).

---

![Risk managers need to monitor the whole range of risk](image)

**Types of real estate risk**

![AIFMD’s scope of risk reporting](image)

**Capital requirements**

Internally managed AIFs must have an initial capital of at least 300,000 euro. AIFMs that externally manage AIFs must have an initial capital of at least 125,000 euro. The externally managed funds must also have additional own funds equal to 0.02% of the
amount by which the portfolio of AIFs exceeds EUR 250 million, subject to an overall limit of EUR 10 million (KPMG, 2013).

### Transparency & disclosure

**Pre-sale disclosure to investors of AIF**

Managers of AIFs are required to provide certain information to investors before they invest in an AIF. The AIFMD does not set out any format for delivering the information, only the mandatory requirements of the information.

<table>
<thead>
<tr>
<th>Disclosure to fund investors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-sale disclosure requirements</strong></td>
</tr>
<tr>
<td>- Investment strategy and objectives, master fund and target funds, types of assets, investment techniques and associated risks, investment restrictions, types and sources of leverage, maximum leverage level, any collateral and re-use arrangements, and valuation and pricing procedure of the AIF.</td>
</tr>
<tr>
<td>- How changes to the investment strategy/policy are made.</td>
</tr>
<tr>
<td>- Latest NAV and historical performances.</td>
</tr>
<tr>
<td>- Procedure for the issue of units.</td>
</tr>
<tr>
<td>- Identity of AIFM, depositary, prime broker, auditor and service providers, delegates of the AIFM and/or the depositary.</td>
</tr>
<tr>
<td>- Any contractual discharge of liability by the depositary.</td>
</tr>
<tr>
<td>- Valuation procedure and pricing methodology.</td>
</tr>
<tr>
<td>- AIF liquidity risk management and redemption rights in normal and exceptional circumstances.</td>
</tr>
<tr>
<td>- Maximum fees, charges and expenses (direct and indirect).</td>
</tr>
<tr>
<td>- Fair treatment of investors and any preferential treatment for an investor group.</td>
</tr>
</tbody>
</table>

| **Additional periodic disclosure requirements** |
| - Liquidity arrangements – the percentage of assets subject to special arrangements, which may have been put in place due to their illiquid nature. |
| - Any new arrangements for managing AIF liquidity. |
| - The current risk profiles of AIFs and the main features of the risk management system employed by AIFM to manage the risks. |
| - Total amount of leverage employed by the AIF. |
| - Any changes to the maximum level of leverage. |

Figure 45: Disclosure to investors, (KMPG, 2013)

**Annual reports to investors**

The annual report of an AIF must be made available within 6 months after AIFs year-end. The AIFMD sets out the content and format of the annual report (perhaps with some additions from the Member State) (KPMG, 2013).
Reporting to regulator (AFM, DNB)

In order to be able to monitor and manage the potential systemic risks of the AIFMs effectively, AIFMs are required to provide the regulator (AFM) regularly with certain information on each AIF managed (KPMG, 2013). The frequency of these reports depends on the AuM (Assets under Management) of the fund manager the fund it manages, as made clear in the table below.

<table>
<thead>
<tr>
<th>The AIFMD sets out the following detailed reporting requirements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The principal markets and instruments traded.</td>
</tr>
<tr>
<td>- The main categories of assets held by each AIF, including principal exposures and concentrations.</td>
</tr>
<tr>
<td>- The percentage of assets subject to special arrangements due to illiquidity, any new liquidity arrangements and results of liquidity stress tests.</td>
</tr>
<tr>
<td>- Risk profile of the AIF, risk management systems employed and results of stress tests.</td>
</tr>
<tr>
<td>- For AIF using leverage on a substantial basis, reporting on the level of leverage in each AIF distinguishing between sources of leverage, identity of five largest sources of borrowed cash/securities and extent that assets are re-used under leveraging arrangements.</td>
</tr>
<tr>
<td>- Additional reporting may be requested by the competent authorities on an ad-hoc basis.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The frequency of reporting to competent authorities is defined in terms of AuM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single AIF over EUR500 million</td>
</tr>
<tr>
<td>Quarterly report</td>
</tr>
</tbody>
</table>

Table 18
Source: KPMG in Luxembourg, 2012

Figure 46: Annual reporting requirements, (KMPG, 2013)

Figure 47: Reporting and frequency requirements, (KMPG, 2013)
Remuneration requirements
Detailed remuneration policies for senior management, risk takers and control functions are required under the AIFMD. There is a notion of proportionality, “fund managers shall comply with remuneration principles to the extent that it is appropriate to their size, internal organization, nature scope, and complexity of activities. Proportionality should also exist with respect to the different categories of staff.” The remuneration rules are described in figure 28 (KPMG, 2013).

Conduct of business principles
Conflicts of interest
An AIFM is required to take action in order to identify conflicts of interest that may arise between it and various actors. The AIFM will have to implement procedures in order to do so. They have to segregate tasks and responsibilities, within their own operating environment as well, to prevent conflicts of interest. The directive indicates how to identify conflicts of interest and contains the requirements for a policy as well as procedures (KPMG, 2013).

An overview of all requirements set by the AIFMD can be found in Appendix 2 (Franssu, 2012).
2.7 IMPACT AIFMD ON REAL ESTATE FUND MANAGERS

AIFMD impacts all actors in the alternative fund value chain, whether investor, manager, depositary, service provider, valuer, or supervisory authority. However, the directive is above all aimed at describing fund managers’ duties and obligations but this does affect the context in which the real estate fund manager operates (Mellon, 2014). This chapter describes the internal governance of the AIFM, the outsourcing of valuations, the increased depositary duties, interaction between the depositary and the accountant and the financial implications for the AIFM.

The real estate fund value chain and its actors
The blocks in red are newly required functions in the fund value chain as imposed by the AIFMD. Nevertheless, the directive will affect all actors.

![Real Estate Fund value chain](image)

**Figure 49**: Real Estate Fund value chain, (Lisette van Doorn)

2.7.1 Internal governance – internal control
“The AIFM is required to have adequate and appropriate human and technical resources for the proper management of AIFs proportional to the size, nature, scale and complexity of the business.” (KPMG, 2013)
The directive describes detailed requirements for general business organisation, administration procedures and internal controls, including requirements for a separate and independent compliance function and internal audit function. The risk management pillar has to be revised in order to satisfy the AIFMD requirements (see figure 50).

Figure 50: Internal control requirements, (KPMG, 2013)

Smaller firms struggle with satisfying these requirements for general business organisation, since they have fewer resources to full fill these tasks. Some fund managers need to add additional resources to meet the requirements of AIFMD. This will incur additional costs.

Figure 51: Expectations for hiring extra staff, (BNY Mellon, 2014)
2.7.2 Trouble with outsourcing valuations

Regarding valuations, AIFMs have two options under AIFMD. Either prove that the partners who stand to benefit from generous valuation marks can’t influence the valuation process, so having an independent valuation committee that excludes optimistic dealmakers in the company. Or hire a third-party service provider to conduct the valuation process for them (Private Equity International, 2013). Large AIFMs with many resources are likely to choose the first option. Smaller AIFMs, with fewer resources, tended not to have the same controls in place. In a smaller organisation it is less likely to have a fully independent valuer available. Internally there will be more chances of conflict of interest in the valuation process.

Valuation service providers made it clear that the directive is too strict to feel comfortable about taking the liability that comes with AIFMD-approved valuations. Under AIFMD, third-party valuers are liable for any losses suffered by the AIFM as a result of their negligence or intentional failure to perform the valuation. This liability can potentially be very costly if an investor proves that it overpaid for an asset. (For example, a real estate advisory business of Deloitte was recently forced to pay an 18 million pounds court fine after it overvalued a sold asset.) The liabilities under AIFMD can be as high as the level of damages arising from a negligently mispriced asset. Many valuers say they can not insure to take the liability (Private Equity International, 2013). Here we identify a potential problem, since assets have to be valued.

Another recognized problem is concerns the calculation of the NAV. When having an external valuer, the valuer has to conduct the valuations of funds’ assets (with an unlimited liability) as well as the calculation of the NAV (thus, also external). For many real estate fund managers this is a problem. For private equity or hedge funds this is much more common, but for real estate it isn’t. Real estate fund managers want to calculate the NAV and decide on the P&L themselves.

2.7.3 Increased depositary duties and liabilities

One of the major impacts of the AIFMD is that the depositary duties and liabilities should be standardized across the EU. This requirement should offer investors a greater choice of funds and more protection, as they know they will enjoy a common standard of oversight, safekeeping and liabilities, regardless of the domicile of the fund (BNY Mellon, 2014). In order to satisfy its duties and liabilities under AIFMD, the depositary is obligated to fundamentally revise its oversight processes and the recourses it uses to support those processes. Many AIFs don’t have a depositary at the moment, for managers of these AIFs the interaction with the depositary is completely new. Some AIFs already have a depositary under Wft. regulation; these AIFMs need to revise their contract in order to comply with the new depositary requirements under AIFMD.

The duties include cash monitoring, safe-keeping of assets that can be held in custody, record-keeping of assets not held in custody, oversight duties and delegation of assets. The duties of the depositary are described in chapter 2.4.4.

The duties of the depositary add up to an extensive programme of work, in order to oversee each fund under contract. The European Commission expects the depositary to become a central hub where all information related to the AIF is centralised, recorded and reconciled. For example the cash flow monitoring implies that the depositary must record all transactions in order to notice the significant, inconsistent cash flows. This implies a significant operational effort and technology structure required to meet this requirement (BNY Mellon, 2014).
The liability of the depositary goes far. For real estate funds, the depositary is liable for negligence of fault of assets, oversight and cash flow monitoring duties. The loss of other assets is described as: “The depositary is liable to the AIF and its investors only if it is negligent or intentionally fails to perform its obligations under the Directive.” (Jean Michel Loehr, 2013) Depositaries will identify the risks of the fund before contracting the AIF, because of their extensive liability on the duties they have.

For AIFMs the depositary requirements mean that an external party gains insights in all your processes and cash flows, briefly your whole business. It is therefore an important matter to find a depositary that understands your fund and suits your company. Furthermore, the AIFMD describes a lot regarding to the interaction between the AIFM and the depositary, but also leaves things implicit. Nowhere it is described how to monitor the cash flows and when a cash flow is significant or inconsistent. Who decides whether a cash flow is inconsistent? When is the depositary obliged to inform the regulator (AFM)? The AIFM and the depositary have to make these un-described matters clear, apart from the AIFMD requirements.

To conclude, the role of the depositary has changed fundamentally. The required duties and liabilities ask for very close cooperation between the AIFM and the depositary in order to minimise the potentially substantial cost impact.

2.7.4 Interaction depositary and accountant

With the introduction of a standardized depositary for AIFs, the tasks of the accountant will overlap with the required depositary tasks. The AIFM can save costs if the depositary and accountant are able to collaborate efficiently. As can be seen in figure 53, most of the tasks required by the depositary under AIFMD, overlap with accountant’s tasks. To act in an
efficient way, the depositary can certificate his processes with the ISAE 3402 mark. In that case, theoretically, accountants could rely on processes with the ISAE 3402 mark, in order to avoid duplication of effort (and thus double costs for the AIFM) (Nova Trust, 2014). In practice, a couple years of track record will be needed to experience the efficiency of this.

The efficient collaboration between the depositary and the accountant is a point of attention. The ISAE 3402 certification sounds executable. But in practice, the accountants want to make as many hours as they can, in order to make money. With the certification of the depositary processes, the accountant would only have to check these processes. It seems likely that the accountants are going to act very critical on the depositary’s tasks and not just relies on their processes. In this case, it costs the AIFM more than expected and he will probably blame the depositary for that.

<table>
<thead>
<tr>
<th>Tasks Depositary</th>
<th>Focus areas Accountant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monitoring and verifying cashflows on a daily basis</td>
<td>Accuracy of costs</td>
</tr>
<tr>
<td>Verification ownership of assets (properties)</td>
<td>Ownership of assets</td>
</tr>
<tr>
<td>Monitoring issue &amp; redemption rights / capital- and dividend payments</td>
<td>Control of mutations equity</td>
</tr>
<tr>
<td>Monitoring intime completion of transactions</td>
<td>Open transactions</td>
</tr>
<tr>
<td>Monitoring compliance investment policy and restrictions</td>
<td>Compliance regulations</td>
</tr>
<tr>
<td>Monitoring determination of NAV and valuation procedures</td>
<td>Valuations of assets</td>
</tr>
<tr>
<td>Allocation of revenues</td>
<td>Completeness revenues</td>
</tr>
<tr>
<td></td>
<td>Annual reports (year-end closing)</td>
</tr>
<tr>
<td></td>
<td>Compliance with reporting rules</td>
</tr>
</tbody>
</table>

Figure 53: Overlapping tasks depositary and accountant, (Nova Trust, 2014)

### 2.7.5 Financial implications for real estate AIFMs

The core objective of AIFMD is lowering risk in the AIF-sector and in addition to that, lower risk for the investor (more protection). According to the risk/return formula, in this case the return would decrease.

AIFMD causes a cost impact. As can be seen in figure 54, beforehand the fund managers were prepared to distribute the extra costs between the investor and the firm (INREV, 2013a).
Fund managers have to decide on how to allocate the costs of AIFMD compliance. Should the firm or the fund bear the costs? If there is decided the increased costs should be borne by the fund, this potentially impacts the total expense ratio (TER), which is incurred by the investors (higher costs for the investor, less return).

As can be seen in the graph below, none of those surveyed expects to pass on all AIFMD costs to the fund (BNY Mellon, 2014).

The fund industry made assessments of the total cost of gaining authorization and implementing the AIFMD. The average expected total cost of implementation is $300,000 (210,000 euro). The range of the assessments of costs is wide, but fewer than half of the respondents believe the costs will be less than $200,000 (140,000 euro). BNY Mellon already estimated the costs six months earlier, by then only 43% of the respondents estimated the costs less than $200,000. Concluded can be that fund managers believe the costs of implementing the AIFMD are less onerous than feared (Mellon, 2014).

The costs in the figure are an average of the costs for managers of all asset classes. For real estate funds the costs are expected to be even somewhat higher, since the reporting part encompasses more effort for real estate.
Another study of the cost impact of the AIFMD is from INREV. INREV made a business impact analysis expressed in terms of costs as % over total AuM (Assets under Management) and effect on investor returns.

The three bullet points provide information of the business impact analysis.

- “The figures derived in the Business Impact Analysis are based on an assumption of a non-listed real estate fund with an average size (GAV) of EUR 500mln, and with an average leverage of 50%. For estimating corporate-level costs, a fund manager with 10 funds under management was assumed. This means that corporate costs were allocated over 10 funds. Consequently, the business impact might be considerably higher for those managers that have only three funds to cover for these corporate costs or, by contrast, 20 funds might incur lower one off costs due to economies of scale.
- The findings below should not be interpreted as representative for the entire non-listed real estate funds industry in Europe. Different fund structures, different existing national regulations and different practices make it impossible to develop a single representative figure for our industry. In general those countries already highly regulated will experience lower costs that those figures identified below.
- Given that fund management fees in the industry are on average 60 bps, the estimated business impact is material for the operating profit of investment managers.” (INREV, 2011)
The estimated business impact as % over the AuM is on average 6-8 basis points. Given that fund management fees in the industry are on average 60 bps, the estimated business impact is material for the operating profit of investment managers. The estimated effect on investors return (with an LTV of 50%) is 12-16 basis points.
2.8 CRITICAL REFLECTION BASED ON THEORETICAL FRAMEWORK

The theoretical framework covers topics that are related to AIFMD and the impact on real estate fund managers and the real estate investment market. The main causes of AIFMD, the importance of transparent markets, the impact of more supervision, AIFMD and its requirements and the impact for real estate fund managers, are all described. After reviewing the literature regarding these topics, I have developed a critical view on these topics. In the course of writing this theoretical framework, some questions arose. In this paragraph these spin-offs will be discussed. After the empirical research part, these topics will be discussed again in the light of new empirical findings.

Appropriate response

Regulation reforms and greater disclosure and reporting requirements often occur following international crises and corporate and public fraud. As stated earlier, until the outbreak of the financial crisis of 2008, the alternative investment sector was not regulated as such in the European Union in a targeted and specific way (Bernardt, 2013). The assumption of the European Commission that the financial crisis of 2008 was the consequence of wrongfully set incentives that primarily concerned the fund managers’ remuneration resulted in a legal focus on alternative investment fund managers with the AIFMD. The European Commission argued this as these entities launch and distribute the financial products and also decide on the investment strategy that might bear system risk (Bernardt, 2013).

I admit that due to the design of financial products, fund managers have a strong impact in the financial market developments. They may jointly be responsible for the realization of systemic risk (in transnational dimensions). However, in the view of steady credit supply of the real economy, the growing and already massive transnational mobility, and global competition on the financial market regulations, for me it seems doubtful whether one can identify the fund managers as those the most responsible for the financial crisis of 2008.

One-size-fits-all or one-size-fits-none?

As discussed in chapter 2.4.3 the AIFMD will have a significant impact in a wide spectrum of funds, including hedge funds, private equity funds, real estate funds and infrastructure funds from its implementation deadline in July 2013. The alternative investment fund managers (AIFMs) of these varieties of funds will be subjected to harmonized rules, regardless of the fund type they manage, open- or closed end sectors.

Not only fund type is seen as one for AIFMD, also the differences on country level are ignored. The diversity in institutional and economic factors in EU member states may limit the effectiveness of a ‘one-size-fits-all’ set of accounting standards and disclosure regulations.

The market-based control should be strengthened by AIFMD. AIFMD optimizes the separation of fund administration and the deposition of the assets. This separation should strengthen the market-based control of the (relevant) assets, minimize conflicts of interests and reduce the risk of any abuse (Bernardt, 2013).

However, I think this neither seems proportional nor sustainable. Where Basel III is based on a precise identification of the individual risk profile, AIFMD applies to all different kinds of alternative investment funds. This neglect of the individual risk profile of these funds, may reduces the possible economic growth in the AIF sector, and will stimulate a capital flow towards the offshore countries with as a result significant welfare losses.
Economies of scale

The direct costs of corporate disclosures are conceptually straightforward. These direct costs include the preparation, certification and dissemination of accounting reports. Regarding the AIFMD, these direct costs can be substantial. The fixed disclosure costs lead to economies of scale and can make certain disclosure particularly burdensome for smaller (younger) firms.

Besides this, smaller firms also struggle with satisfying the requirements for general business organisation, since they have fewer resources to separate the tasks as required. Smaller fund managers have trouble with internally organising the (independent) valuations. Some fund managers need to add additional resources to meet the requirements of the AIFMD. This will incur additional costs.

Smaller firms also have trouble finding an appropriate (independent) external valuer. The liabilities for the independent valuer under AIFMD can be as high as the level of damages arising from a negligently mispriced asset. Particularly for small funds, many valuers say it’s not worthwhile to take the liability (Private Equity International, 2013).

However, the AFM states that especially the smaller firms need more control and disclosure. The risk management of these smaller fund managers (with often non-professional investors) is often quite dysfunctional, while the bigger, professional firms already have a proper risk and disclosure management. I think this is partly true, since it is better to filter the ‘bad funds’ out of the market. But I believe there are also many small fund managers good-functioning. It seems a disadvantage to me that these parties will encounter such a big cost impact and probably have an unprofitable business. Losing these parties will diminish innovation in the sector and there will be a possible flow of capital to other asset classes. These possible developments are disadvantages for the EU alternative fund industry.

Transparency benefits

According to Loes Meerburg (De Brauw Blackstone Westbroek), it is the question whether the objectives regarding investor protection, are of any worth for the professional (institutional) investor. These investors (mainly) know what they are doing, while the smaller (non-professional) don’t. It seems that the AIFMD will bring more benefits for the non-professional investors, since they will be better protected for their lack of knowledge of the business they invest in.

Ratio risk/return

The core objective of the AIFMD is lowering risk in the AIF-sector and in addition to that, lower risk for the investor (more protection). According to the risk/return formula, in this case the return will decrease.

AIFMD causes costs. Fund managers have to decide on how to allocate the costs of AIFMD compliance. Should the fund manager or the fund bear the costs? If there is decided the increased costs should be borne by the fund, this potentially impacts the total expense ratio (TER), which is incurred by the investors (higher costs for the investor, less return) (Mellon, 2014).

The question is whether the investors are willing to sacrifice return for more risk protection. The recognition of these risk protection benefits probably differs between investor types (here again strikes the one-size-fits-all approach). Private (opportunistic) investors often go for quick wins, the hit-and-run approach, while institutional investors more look for long-term, low risk assets. As mentioned before, AIFMD neglects the individual risk profile, so some
investors searching for a specific risk/return profile, will face more AIFMD-burden than others.

Short sighted, the AIFMD causes a lot of paperwork, so more costs. It is the question whether these costs will bring benefits for investors.

The restrictions and costs of the AIFMD can possibly contribute to more demand for unregulated products such as separate accounts. This can be tricky for arising risks in that level-playing field.

There are many questions unanswered regarding the effects of the AIFMD (Rupp, 2014).

- *Is the potential consolidation of fund managers industry leading to less choice for investors?*
- *Will the benefits of regulation contribute to demand for regulated products or at least regulated managers?*
- *Will costs and solvency capital requirements make real estate investments less attractive to investors?*
- *Will increased transparency and oversight make real estate investment more attractive to investors?*

These questions are examples of questions for the interviews with the investors of the funds.

**Timing of AIFMD implementation**

The AIFM-Directive is designed as reaction on the recent financial crisis of 2008. It is the question whether this is an appropriate approach with the right timing. Most of the EU countries, which all have to comply for the directive, are at the beginning of economic recovery. The one-size-fits-all approach is a major drawback for fund managers doing business. It is of great probability that the AIFMD, which causes a major (cost and effort) impact on the fund managers, will slow down the recovery on the financial markets. Consequently, this will affect the economic recovery negatively. According to the fund managers, a 'good timing’ doesn't exist, since it bothers them from doing business anyway.
2.9 FRAMEWORK FINDINGS AND GAPS

Most important findings resulting from the literature study are summarized in the figure below.

The identified knowledge gaps on which the research will focus.

Figure 58: Most important finding theoretical framework

Figure 59: Identified knowledge gaps
3. EMPIRICAL PART OF THE STUDY

The theoretical framework forms the context for the empirical part of the study. In the empirical part of the study four case studies will be conducted, whereby the cost impact for fund managers and the effects for and on the investors and the real estate investment market is studied. First, the fund managers that participated in this research will be introduced; second, the cost impact study will be presented and third the effects on investors and for the market are described at the end of this chapter.

3.1 Introduction of empirical research

Measuring the effects and impact of a regulation is an important but challenging task. A difficulty is that it is practically impossible to isolate the influence of the regulation as one-single factor. The reality is that there are more factors that will influence the entity at the same time. Due to these multiple-factor influences, it is hard to estimate or even measure the effects of regulation.

Another point is that the nature of the regulatory process compounds the standard pitfalls of empirical analysis such as endogeneity and confounding events (Mulherin, 2007). According to Mulherin (2007): "Both regulation and the research on its effects should avoid a one-size-fits all approach. We tend to seek easy, single-factor explanations of success" (Mulherin, 2007). Being aware of these pitfalls helps to be very critical on the conclusions to draw.

This research focuses on the cost impact of AIFMD on real estate fund managers and the transparency benefits for the real estate investment market. For fund managers it is not so difficult to determine the out of pocket costs especially incurred by AIFMD. Also the internal changes in the organisation caused by AIFMD are clearly to describe.

The transparency benefits of AIFMD are somewhat more difficult to isolate as single-factor influence. Since we study the expected transparency benefits of AIFMD it is easier to isolate the AIFMD as single factor. However, in reality, when measuring the transparency benefits of AIFMD within a couple of years, more factors will influence the transparency of the real estate market.

Recap of what we are researching

- **The direct- and indirect cost impact for real estate fund managers**
  In the empirical part of this research, the direct and indirect AIFMD cost impact for four real estate fund managers will be measured. An explanation of the meaning of direct and indirect costs in this study and the method can be found in paragraph 3.3.

- **The effects on and for investors**
  The majority of the investors of the four office funds will be interviewed to be able to understand the effects of the AIFMD on and for investors. In paragraph 3.4, the interviewees are introduced and the interview-design is explained.
3.2 Introduction of the four fund managers and their office funds

This paragraph introduces the four fund managers, will shortly elaborate on the key financial information of the office funds they manage and will tell something about the corporate governance of the four organisations. To be able to understand the AIFMD impact on the organisations, it is important to be familiar with the key (financial) information.

References used are not linked to the information, since this has to be anonymous. Used references: (Syntrus Achmea, 2014), (Bouwinvest, 2013), (G. I. CBRE, 2013a), (Altera, 2013)

FUNDMANAGER A
“Fund manager A offers Dutch pension funds the possibility to invest indirectly in Dutch real estate. As private, non-listed real estate fund, fund manager A manages four sector-portfolios under one public limited company. The fund manager manages a residential, retail, logistic and office-fund.”

Key fund information 2013
Non-listed, closed office fund
Investment strategy: Core
No leverage
Aimed at institutional investors only
Focus on Randstad city-centres & multi-tenant buildings
AIFMD license: yes, conversion on Wft. license

Investors Office Fund
Total number of shareholders: 11

Key financial information 2013
Fund Assets under Management: 215.000.000 EUR
Management fee: don’t work with a management fee

Total Expense Ratio (TER): 0,032% of the AuM (31,8 in basis points)
Total Fund Return On Equity (ROE): -4,1%

Number of objects: 21
Total lettable floor area: 123.482 sqm.
Occupancy rate: 71%
WALL: 4,5 years
Gross Initial Yield: 12,6%
Theoretical gross annual rent: 23.400.000 EUR
Total property return: -4,6 %

Total return IPD Property Index: - 2,4%

Corporate governance & AIFMD

⇒ Management board (3)
⇒ Supervisory Board (4)
The annual report 2013 of fund manager A about the AIFMD:
“Fund management is intensified caused by extra supervision from the governance (AIFMD) and by pension funds. The capacity of the control department is expanded in order to handle the increased workload. The extra out-of-pocket costs caused by the AIFMD will raise the organisational costs as of 2014, mainly caused by the costs for the depositary, supervision costs of the AFM and DNB and internal (re-)organisation costs. In the report it is stated that the internal costs for AIFMD-compliance will be 0,5 – 1,0 FTE. The reporting requirements are demanding under AIFMD.”

FUNDMANAGER B
“Fund manager B is an investment manager specialized in real estate for institutional investors. Fund manager B has total assets under management of € 6.1 billion, managed by 130 professionals, all based in Amsterdam, the Netherlands. The Dutch real estate portfolio comprises five sector funds: a Residential Fund, a Retail Fund and an Office Fund – which are open to institutional investors – as well as a Hotel Fund and a Healthcare Fund.”

Key fund information 2013
Non-listed, closed office fund
Investment strategy: Core investment style
No leverage
Aimed at institutional investors only
Focus on multi-tenant assets (>90%)
AIFMD license: 14th of February 2014

Investors Office Fund
Number of shareholders: 1

Key financial information 2013
Total Assets under Management: 477.308.000 EUR
Total shareholders equity: 469.201.000 EUR
Management fee: 2,4 million EUR

Total Expense Ratio (TER): 0,60%
Total Fund Return On Equity (ROE): -0,3%

Amount of objects: 25
Total lettable floor area: 217.856 sqm.
Occupancy rate: 90.4%
Gross Initial Yield: 7,9%
Theoretical gross annual rent: 43.583.000 EUR
Average monthly rental income per sqm.: 180 EUR
Total property return: 0,7%

Total return IPD Property Index: -3.3%

Corporate governance & AIFMD
- Structure of control

1st line – Board of Directors
Day to day management and control of key processes in the organisation
2nd line – Internal risk management, compliance and control
Compliance, risk management and control framework
Policies and procedures
Advising, monitoring and reporting
Functional oversight

3rd line – Independent Internal Audit
Independent internal challenge and assurance

4th line – Supervisory Board, independent external audit and depositary
Supervision of the organisation
Independent internal challenge and assurance

**FUNDMANAGER C**

“The firm sponsors real estate investment programs across the risk/return spectrum in North America, Europe and Asia for investors worldwide including public and private pension funds, insurance companies, sovereign wealth funds, foundations, endowments and private individuals. Programs include core/core-plus, value-added and opportunistic strategies through separate accounts and commingled equity funds, debt investment, global multi manager programs and listed global real estate securities vehicles.”

**Key fund information 2013**
Non-listed, semi-open-end office fund
Investment strategy: core investments
Leverage: 7,1%
Aimed at institutional investors only
Focus on multi-tenant assets
AIFMD license: not yet

**Key financial information 2013**
Total Assets under Management: 1.571.746.000 EUR
Total shareholders equity: 1.371.067.000 EUR

Total Expense Ratio (TER) NAV: 0,83%
Total Expense Ratio (TER) GAV: 0,66%
Income return: 5,6%
Capital return: -13,5%
Total return: -8,5%

Number of objects: 59
Total lettable floor area: 696.151 sqm.
Occupancy rate: 86,9%
Gross Initial Yield: 7,7%
WALL: 4,9 years

**Corporate governance & AIFMD**
“Risk management refers to the mitigating or corrective actions that follow from risk reports. Mitigating and corrective actions may differ in nature, and the AIFMD defines two types of actions: managerial actions and risk management related actions. Managerial actions are the responsibility of the Executive Committee (EC) and refer to the management of the business
lines. The risk-related actions are the responsibility of the Risk Management Committee (RMC) (or one of its members) and refer to amendments in processes or systems, or monitoring reports. Both actions follow from the regular risk reporting flows and actions are monitored frequently (but at least quarterly).”

*Lines of defence*

1st line – Board of Directors
*Day-day management and control of key processes in the organisation*

2nd line – Internal risk management, compliance and control
*Operational and regulatory compliance*
Legal
Treasury
Control & Finance

3rd line – Internal Audit
*Overall effectiveness of the internal controls of the organisation*

**FUND MANAGER D**

“The Office Fund of fund manager D was established in 1998 as a sectorial fund. The Dutch Office Fund seeks to achieve a stable and sustainable yield from real estate investments funded by institutional investors. Our real estate expertise and knowledge of the market enable us to provide more than suitable accommodation and we offer our tenants added value.”

**Key fund information 2013**
Non-listed, open-end office fund
Investment strategy: core investments
No leverage
Aimed at institutional investors only
AIFMD license: not yet

**Key financial information 2013**
Total Assets under Management: 253.100.000 EUR
Total shareholders equity:
Management fee: 0.43%
Number of objects: 20

Unfortunately, at the very last moment, fund manager D decided not to participate and share data about the AIFMD costs allocation and changes in the organisation. They also did not allow me to speak with investors of their office fund. The main reason for this last minute rejection is that this party doesn’t have the AIFMD license yet. They are still processing the requirements and the depositary has not been contracted yet. The AIFMD costs are not clear yet and they don’t want me to ask the investors questions about the AIFMD, since fund manager D believes this will stimulate them to ask more questions.

The main reason for this delay, as they say, lies in the organisational structure of fund manager D. They have to adjust the governance and this is not ready yet. They couldn’t say anything specific about the changes in governance or organisation structure. They also mention the limited staffing of the AIFMD-team of the AFM as a reason for delay.
It was surprising they decided to withdraw at the last moment. One other fund manager is also still in the process of obtaining the license, but this party was willing to share data.

In the figure below, an overview of the participating parties can be found.

Figure 61: Overview participating parties
3.3 AIFMD cost impact on real estate fund managers

3.3.1 Direct cost impact

**Introduction of the direct costs**
For this research thesis the direct cost impact for real estate fund managers is defined as: *The out-of-pocket costs a real estate fund manager has to make in order to be AIFMD complaint.*

Three fund managers have been asked to fill in their direct – out of pocket – costs caused by AIFMD. The direct costs are divided in set up costs and annually recurring expenses.

The fund managers are asked to fill in these costs and define whether the expense will be paid by the fund (the investors) or by the manager himself (fund manager’s costs).

The *set up costs* related to AIFMD are:
- License application & authorization AFM
- Consulting costs
  - Legal
  - Accounting
  - Administrative organisation/business process
  - Other, e.g. project management
- Selection and contracting depositary
- Selection and contracting external valuer
- Selection and contracting accountant
- Other (software for example)

The *annual costs* related to AIFMD are:
- Annual AFM registration costs
- Depositary
- External valuer
- Accountant
- Other (software for example)

The direct cost impact survey as the fund managers received it can be found in appendix 5.

**Pro memory**

The fund managers are not able to give decisive answers for all the costs. Some costs are not defined yet; for example the costs for the DNB annual registration. One fund manager hasn’t got the license yet, so in this case some costs are an estimation of what they think the costs will be.

**Conversion of Wft. license or new license application**

One of the fund managers already had a Wft. license. This means they only had to convert this license in an AIFMD license. This is an administrative process and the AFM expects these parties to independently adjust their business processes e.g. in line with the AIFMD requirements. A complete new license application is much more time consuming for the fund manager as well as for the regulatory authority (AFM, DNB) who has to approve all new processes and documents before granting the license.
Different revenue models

The fund managers do not all have the same revenue model. For one of the fund managers the business model is not based on a management fee but for 100% owned by the investors of the funds they manage. The fund manager is a real estate investment subsidiary. The personnel of the fund manager is in paid employment by the investors. This fund manager is more an extension of the pension funds than an organisation with an own revenue model. All costs the fund manager makes will be passed on to the investors, subtracted from the income the investments generate.

The other fund managers receive a management fee. INREV defines this as a charge paid to a fund’s manager for its fund management services to the fund (INREV). Fund management fees generally cover services such as:

• managing the fund level structure;
• arrangement of financing;
• fund administration;
• fund reporting; and
• investor relations.

The fund management fee is generally a fixed percentage of NAV or GAV.

This is a difference worthwhile to mention because of the difference in the allocation of AIFMD costs. For the fund manager that is in paid employment by the investors there will be no discussion whether the AIFMD costs will be paid by the fund manager or by the investors. This will, in any case, be the investor. For the other (external) fund managers this will be different. There will be a discussion of who bears the costs, the fund manager (higher expenses) or the investors (more costs allocated to the fund).

In figure X you can see simplified Profit & Loss Statements (P&L) of the different revenue models (on the left, investment subsidiary; on the right, management fee).

<table>
<thead>
<tr>
<th>Profit</th>
<th>Loss</th>
<th>Profit</th>
<th>Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>rental income</td>
<td>maintenance costs</td>
<td>rental income</td>
<td>management fee</td>
</tr>
<tr>
<td></td>
<td>salary</td>
<td></td>
<td>(performance fee)</td>
</tr>
<tr>
<td></td>
<td>pensions</td>
<td></td>
<td>pensions</td>
</tr>
</tbody>
</table>

Figure 62: Different revenue models
Total Expense Ratio

INREV defines the TER-ratio as follows:

“The TER expresses annual operating costs borne by a fund over one year as a proportion of average fund assets, in order to enable fairer comparisons of costs between funds than the management fee alone” (INREV). These costs consist primarily of management fees and additional expenses such as trading fees, legal fees, auditor fees and other operational expenses.

\[
\text{Total Expense Ratio} = \frac{\text{Total Fund Costs}}{\text{Total Fund Assets}}
\]

The size of the TER is important to investors, as the costs come out of the fund, affecting investors' returns. For example, if a fund generates a return of 7% for the year but has a TER of 4%, the 7% gain is greatly diminished (to roughly 3%) (Investopedia).

The AIFMD costs will affect the fund’s expenses, thus the TER. As you can see in the formula, the TER depends on the fund’s costs and on the fund’s assets. For comparing the TER 2013 with the TER 2014, you also have to check changes in the total Assets under Management of the fund to be able to make a fair comparison.

Survey

(See appendix 5 for complete survey document.)

It was not that easy to obtain the out of pocket costs of the fund managers. The fund managers required confidentiality and therefore non-disclosure agreements had to be signed. The AIFMD incurred costs and the allocation of these costs are a point of discussion in the shareholders meetings. So, these data contain sensitive information. The regulators, (AFM & DNB), did not prescribe fund managers how to allocate the costs. The fund managers have to decide this themselves, in concert with the shareholders. Due to this, the cost allocation is likely to differ between the fund managers.

Deductive reasoning – quantitative data with general, qualitative outcomes

The survey is completed with absolute, quantitative numbers (the out of pocket costs in euros). So it is quantitative data, but the outcomes will be qualitative. Reasoning from these quantitative data to general, qualitative conclusions is called deductive reasoning. Deductive reasoning, or informally “top-down logic”, is the process of reasoning from one or more statements (or numbers) to reach a logically certain conclusion.

Outcomes of the indirect cost impact surveys

Remarkable costs will be identified. After the outcomes of the indirect costs, I will try to explain these remarkable direct costs.
**FUND A’s DIRECT COST IMPACT**

*Revenue model FM A*

Fund manager A is 100% owned by the shareholders and in paid employment of the shareholders. This means that all funds’ expenses will be passed on directly to the shareholders. There is no discussion about whether the costs will be borne by the fund manager or by the fund.

*Conversion of Wft. license or new application for AIFMD license*

This fund manager already had a Wft. license and only had to convert this license to an AIFMD license.

*Expected increase in TER*

The TER GAV of 2013 was 34,9 basis points. The expected TER GAV for 2014 is 37 basis points. According to the fund managers’ calculations, 0,8 basis points. of the increase is caused by AIFMD cost impact. The rest of the increase in the TER-ratio is caused by devaluation of funds’ assets.

*Direct cost impact – out of pocket costs*

The AuM of all four-sector funds is 1.800.000.000 EUR. The Dutch Office Fund AuM is 215.000.000 EUR.

The total set up costs are 66.000 EUR (all funds, AuM 1.800.000.000 EUR).

The total annual costs are 150.000 EUR (all funds, AuM 1.800.000.000 EUR).

Total set up costs for the Office Fund are 7.900 EUR.

The total annual costs for the Office Fund are 18.000 EUR.

*Allocation of the costs*

Due to the revenue model of fund manager A, the costs are logically allocated to the fund.

On the next page, the AIFMD costs and the allocation of these costs for fund manager A can be found. The costs are given for all funds of fund manager A (AuM 1.800.000.000 EUR).
FUND B’s DIRECT COST IMPACT

Revenue model FM B

Fund manager B receives a management fee that is intended to compensate the managers for their time and expertise. The costs incurred by AIFMD can be allocated to the fund (lower return) or are on the account of the fund manager (more management costs).

Conversion of Wft. license or new application for AIFMD license

Fund manager B applied for an AIFMD license.

Expected increase in TER

The TER GAV of 2013 was 0.60%. The TER-ratio for 2014 is not expected to deviate from this ratio.

Direct cost impact – out of pocket costs

The AuM of all funds is 3.610.000.000 EUR. The Dutch Office Fund AuM is 446.000.000 EUR.
The total set up costs are 71,000 EUR (all funds, AuM 3,610,000,000 EUR).

The set up costs for the Office Fund (446,000,000 EUR) = 8,875 EUR

The total annual costs for the Office Fund (446,000,000 EUR) = 58,000 EUR

**Allocation of the costs**

Costs that are directly related to the fund are allocated to the fund. These contain the annual on-going costs for the depositary and the annual on-going supervision costs of the AFM.

Below, the AIFMD costs and the allocation of these costs of fund manager B can be found. The set up costs are for all funds of fund manager B (3,610,000,000 EUR). The annual costs are specified for the Office Fund.

<table>
<thead>
<tr>
<th>COSTS</th>
<th>FUND (RETURN)</th>
<th>FM (MARGIN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>License application &amp; authorization AFM</td>
<td>16000</td>
<td>0</td>
</tr>
<tr>
<td>Consulting costs</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>legal</td>
<td>50000</td>
<td>0</td>
</tr>
<tr>
<td>accounting</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>administrative organization / business process</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>other, e.g. project management etc.</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Selection and contracting depositary</td>
<td>5000</td>
<td>0</td>
</tr>
<tr>
<td>Selection and contracting external valuer</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Selecting and contracting accountant</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other (e.g. software, ..)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annual AFM registration costs</td>
<td>18000</td>
<td>0</td>
</tr>
<tr>
<td>Depositary</td>
<td>40000</td>
<td>116000</td>
</tr>
<tr>
<td>External valuer</td>
<td></td>
<td>16000</td>
</tr>
<tr>
<td>Accountant</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>Other (e.g. software, ..)</td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 64: AIFMD costs and allocation fund manager B

**FUND C’s DIRECT COST IMPACT**

*Revenue model FM*

Fund manager C receives a management fee that is intended to compensate the managers for their time and expertise. The costs incurred by AIFMD can be allocated to the fund (lower return) or on the fund manager (more management costs).
Conversion of Wft. license or new application for AIFMD license

Fund manager C applied for an AIFMD license.

Expected increase in TER

The TER GAV of 2013 is 0.66 % for the office fund. The TER-ratio of 2014 deviates from the ratio of 2013. This is due to significant changes in the AuM and restructuring.

Direct cost impact – out of pocket costs

The total set up costs for the Office Fund (1.206.552.000 EUR) = 191.000 EUR

The total annual costs for the Office Fund (1.206.552.000 EUR) = 405.000 EUR

Allocation of the costs

Most of the set-up costs are borne by the fund manager; however, the fund also has to bear a part. Costs that are directly related to the fund are allocated to the fund. These contain the annual on-going costs for the depositary and the annual on-going supervision costs of the AFM.

Below the AIFMD costs and the allocation of these costs are presented. All costs are specified for the Office Fund of fund manager C (1.206.552.000 EUR).

<table>
<thead>
<tr>
<th>COSTS</th>
<th>FUND (RETURN)</th>
<th>FM (MARGIN)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SET UP COSTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>License application &amp; authorization AFM</td>
<td>7000</td>
<td>1800</td>
</tr>
<tr>
<td>Consulting costs</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>legal</td>
<td>50000</td>
<td>820</td>
</tr>
<tr>
<td>accounting</td>
<td>5000</td>
<td>3850</td>
</tr>
<tr>
<td>administrative organization / business process</td>
<td>118000</td>
<td></td>
</tr>
<tr>
<td><strong>ANNUAL COSTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual AFM registration costs</td>
<td>78000 pm</td>
<td></td>
</tr>
<tr>
<td>Depositary</td>
<td>327000</td>
<td></td>
</tr>
<tr>
<td>External valuer</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accountant</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other (e.g. software, ..)</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 65: AIFMD costs and allocation fund manager C
THE COMPARISON

Remarkable costs and costs with most impact of fund manager A

The depositary costs are very low (the costs in the scheme are for all sector funds). The annual AFM registration costs have the most impact.

Remarkable costs and costs with most impact of fund manager B

Fund manager B has remarkable low set-up costs, especially since this fund manager had to specifically apply for a license. The depositary costs have the most impact.

Remarkable costs and costs with most impact of fund manager C

The annual costs for the depository are remarkable high. Especially when comparing this with the costs for the depositary of fund manager A and B. The set-up costs are also relatively high. The largest share of the set up costs are the project management costs.

The depositary costs of the three fund managers greatly affect their total cost impact. The costs for the depositary are also divergent for the three fund managers. Below, the depositary cost impact is calculated as impact in basis points on the AuM of the funds.

**Depositary costs / AuM of fund**

- **Fund manager A**: \( \frac{55.000}{1.800.000.000} = 0,3 \) basis points
  
  (Depositary costs are given for the total AuM of fund manager C)

- **Fund manager B**: \( \frac{40.000}{446.000.000} = 0,9 \) basis points

- **Fund manager C**: \( \frac{327.000}{1.206.552.000} = 2,7 \) basis points

According to these calculated impacts, it is clear that the costs for the depositary of fund manager C are considerably high and that the depositary costs of fund manager C are low.

After the indirect costs are indicated, links between the direct and indirect costs will tried to be identified in order to explain the remarkable costs described above.
3.3.2 Indirect cost impact

**Introduction of the indirect costs**
For this research thesis the indirect cost impact for real estate fund managers is defined as: 
*The major internal organisational changes a fund manager has to make in order to be AIFMD complaint.*

The fund managers are asked to describe the major internal organisational changes, caused by the requirements of AIFMD. See appendix 5 for the complete survey document.

**Methodological problem**
The original idea was to quantify the AIFMD cost impact. So the direct -out of pocket- costs as well as the indirect costs. Quantifying the indirect costs turned out to be impossible in the scope of this research. Based on literature of quantifying the indirect costs of regulations in the security market and a meeting with drs. Koppels, the decision was made to qualify the indirect costs of AIFMD instead of quantifying these. Literature taught me it is very difficult to measure the indirect cost impact of regulations. Drs. Koppels advised me to make a “zero-measurement” on the fund manager’s organisation and track changes made by the AIFMD requirements. Comparing organograms of before and after implementation causes the risk of misinterpretation or missing important changes. So, I asked the fund managers to describe the major changes within the organisation, caused by the AIFMD compliance.

**Survey**
*(See appendix 5 for complete survey document.)*

The survey is qualitative. The changes in the organisation structure will be identified. So a zero-measurement will be compared with the new situation under AIFMD. From these changes, general conclusions will be drawn.

According to the literature, (major) changes are expected in the implementation of internal risk management, compliance, internal audit and the valuations (internal/external).

Outcomes of the indirect cost impact surveys

**FUND A’s INDIRECT COST IMPACT**

- No variable remuneration any more. This is converted to a non-pensionable fixed component.
- A senior controller is also risk manager. AIFMD requires this function.
- The Supervisory Board is now more responsible for the remuneration policy. Before AIFMD, this predominantly consisted of monitoring the managing board and the total expenses of the fund.
- And of course, the required reports to the depositary and regulators.

The fund manager of fund A has fit the new proceedings in the existing organisation structure. No changes in the organisation were necessary in order to meet the requirements. However, this organisation has made extra hours related to the AIFMD implementation.

*Set-up: 400 hours of work, contains the following activities:*
Notes to AFM, consultations with the depositary, work-programs with depositary (detailed
worked-out), setting up agreements, answering questions AFM in conversion process, communication with Supervisory Board and shareholders.

The 400 hours set-up were executed by the CFO and two (already existing) controllers. The costs for these hours are estimated at 40.000 EUR.

**Annual: 300 hours of work, contains the following activities:**
Set-up liquidity overviews, supply of required data and notes to the depositary and regulators, answering questions of the depositary.

The on-going extra hours, on annual basis, will be executed by two (already existing) controllers. The costs for these hours are estimated at 20.000 EUR. The extra 300 hours count for 0,5-1,0 fte annual.

These extra costs, (in the set-up phase 40.000 EUR and on annual basis 20.000 EUR), are not significant on a total of 6,4 million fund expense (that is 0,3%). Calculating with the TER, the indirect cost impact is far behind the comma.

So, the extra hours of work caused by AIFMD, will be covered by the existing occupation. The costs are seen as implicit.

**FUND B’s INDIRECT COST IMPACT**

Fund manager of fund B has made no internal changes in the organisation. Before AIFMD, fund manager B was already equipped with all functions AIFMD requires. So, the compliance, risk management and the control function already existed.

Fund manager B has set up an AIFMD-team. People working in this team have made some extra hours, but these are not substantial and definitely not causing significant costs. So far, fund manager B states the indirect cost impact is nil for them.

**FUND C’s INDIRECT COST IMPACT**

Fund manager C has set up an AIFMD-team. These costs are in the project management costs (see direct cost impact fund manager C). This team managed the AIFMD changes for all 8 funds fund manager C manages.

Two new functions have been introduced into the organisation.
- Director risks → 0,5 fte
- Depositary, supply & receive information → 0,5 fte

There is also more demand on the current staff, this is calculated for → 0,3 fte. So, on an annual basis 1,3 fte extra are needed.
3.3.3 Links between direct and indirect cost impact of fund managers

There are remarkable differences in the direct costs of the fund managers. Now we know the indirect cost impact as well, these remarkable costs may be better explained.

<table>
<thead>
<tr>
<th></th>
<th>AuM in EUR</th>
<th>TOTAL SET UP COSTS</th>
<th>TOTAL ANNUAL COSTS</th>
<th>TOTAL COSTS</th>
<th>Impact on AuM</th>
<th>% over AuM</th>
<th>Impact over AuM in bp</th>
</tr>
</thead>
<tbody>
<tr>
<td>OFFICE FUND A</td>
<td>€ 216,000,00</td>
<td>€ 7,900,00</td>
<td>€ 18,000,00</td>
<td>€ 25,900,00</td>
<td>0,000119907</td>
<td>0,011990741</td>
<td>1,2</td>
</tr>
<tr>
<td>OFFICE FUND B</td>
<td>€ 446,000,00</td>
<td>€ 8,875,00</td>
<td>€ 58,000,00</td>
<td>€ 66,875,00</td>
<td>0,000149844</td>
<td>0,014984395</td>
<td>1,5</td>
</tr>
<tr>
<td>OFFICE FUND C</td>
<td>€ 1,206,552,00</td>
<td>€ 191,000,00</td>
<td>€ 405,000,00</td>
<td>€ 596,000,00</td>
<td>0,00049397</td>
<td>0,049396959</td>
<td>4,9</td>
</tr>
</tbody>
</table>

**Fund manager A** has remarkable low annual depositary costs. This can maybe explained by effective negotiating in the set up phase resulting in favourable agreements and efficient collaboration between fund manager and depositary. Also the fact this fund manager only had to convert their Wft. license can play a part.

**Fund manager B** has remarkable low set-up costs, especially since this fund manager had to do a complete license application. However, the fund manager states he had no internal changes to be made. The organisation was already organised in the way AIFMD requires and obtained the license as one of the first.

**Fund manager C** has remarkable high annual depositary costs. Especially when comparing this with the costs for the depositary of fund manager A and B. The set-up costs are also relatively high. The largest share of the set-up costs comes from the project management costs. Fund manager C had to do a complete license application and is the biggest fund manager of these three. More effort, time and costs for reorganizing the organisation seems to be logical, although the project management costs seem high for the described internal changes. The high depositary costs can be explained by the complexity of funds’ assets.

As can be seen in the table below, fund C exists of 59 assets all together 696.000 sqm. In comparison with the other two funds, this is a huge amount of sqm for the amount of assets. The fund holds some very large office buildings, with a large amount of tenants.

Another feature that makes fund C more complex than fund A or B is that it is **leveraged** with 7,1 %.

**Fund C** also has a more complex fund structure than fund A and B. Fund C consists of combined master funds (different CVs and BVs (Dutch legal forms)). This structure is more complex for a depositary to monitor and more difficult to organise in conformity with the requirements of AIFMD.

![Figure 66: Fund information](image-url)
3.4 Effects on and for investors

In this paragraph the investors of the studied office funds are introduced, the interview guide of the semi-structured interviews is explained and the outcomes of the interviews are presented.

3.4.1 Introduction of the interviewed investors

Before introduction of the participated investor it is important to explain the difference between them. Four of the 8 investors are fiduciaries; the other four are ultimate investors.

**Ultimate investors** manage the investments in-house and invest directly in the fund.

The other four investors are **fiduciaries** (also known as ‘fund of funds’). A fund of funds is a fund that invests in other funds. A fiduciary invests in funds on behalf of a/series of investors (external management of the investments).

INREV defines a real estate fund of funds as a collective investment vehicle that uses a strategy of holding a portfolio of investments in other real estate vehicles rather than investing directly in real estate (INREV).

However, if the fund of funds carries an operating expense, investors are essentially paying double for an expense that is already included in the expense figures of the underlying funds (Investopedia). A fund of funds also allows investors to achieve a broad diversification and an appropriate asset allocation with investments in a variety of fund categories (real estate, stocks, bonds e.g.) that are all wrapped into one fund.

The fiduciaries also have to obtain the AIFMD license since they manage funds.

Figure 67: Two types of investors of the office funds
The interviewees

**Investors of FUND A**

Blue Sky Group  
*Marleen Verhaegh – Senior Fund Manager  
Robbert Staal – Senior Fund Manager*

Pension fund Hoogovens  
*Thijs Vollebroek*

ABN AMRO Pension fund  
*Douwe Hoekstra – Senior Fund Manager*

**Investors of FUND B**

bpf BOUW  
*David van As – Head of the management board*

**Investors of FUND C**

APG  
*Hans Spikker - Senior Portfolio Manager Real Estate*

PGGM  
*Mathieu Elshout - Senior Investment Manager Private Real Estate Europe*

Nationale Nederlanden (NN)  
*Chris Hoorenman – Senior Fund Manager*

GIP  
*Robert Muilwijk – Investment analyst Continental Europe, CBRE GIP  
Heleen van ‘t Hof – Senior Fund Secretary, CBRE GIP*

3.4.2 The interview guide

The investors have been interviewed in a semi-structured way. A semi-structured interview needs to have some structure, although that structure should be flexible. This flexible structure is provided by an interview guide, that groups the key topics and questions. As interviewer of a semi-structured interview, I’m free to add questions or change the order if necessary. The purpose of the interviews is to understand people’s ideas, opinions and experiences. These are best captured using questions that don’t have a fixed set of answers, such as “What are your views on X?” or “How do you feel about Y?”.

The key topics of the interview guide are:

- AIFMD know-how  
- Transparency  
- Investor behaviour  
- Ratio risk/return  
- Appropriate reaction / timing
A qualitative semi-structured interview requires a good preparation. A framework of general topics and expected relations is made in the form of an interview guide.

The complete interview guide can be found in appendix 6.

3.4.3 Interviews

See the non-public appendix for all the transcripts of the interviews done.

It was hard to make the interview appointments with the investors. The people with AIFMD know-how were often people with busy agendas.

The interviews gave me very useful and new insights. Although the difference in AIFMD know-how was remarkable; I experienced all interviews as useful and valuable. Making the transcripts of the interviews non-public turned out to be necessary since the anonymity of the investors was otherwise hard to obtain.

3.4.4 Method of data processing

In figure 68 below, the process of gaining relevant outcomes from the interviews is illustrated.

In the theoretical framework the most important findings and identified knowledge gaps were presented. On this basis, the key topics and leading questions for the interview guide are made (1).

The transcripts of 9 interviews of approximately 45 to 60 minutes contained a lot of information. To be able to filter out the relevant data, the outcomes are grouped just like the interview guide. After grouping all data in the 5 key topics, it is linked back to the most important findings and identified knowledge gaps of the theoretical framework (3). Doing this enabled me to filter out the relevant outcomes of the interviews.

Figure 68: Process of gaining relevant outcomes from the interviews

In paragraph 3.4.5 the relevant outcomes of the interviews are described.
3.4.5 Outcomes of the interviews

The interview guide has four leading topics. The outcomes of the interviews will be categorized in these four topics. The investors are also asked about their level of knowledge on the AIFMD topic.

KNOW-HOW

The AIFMD know-how of investors depends on what sort of investor they are. The ultimate investors are somewhat less acquainted with the details in comparison with the investors that also manage funds (fiduciaries) and thus also have to comply with AIFMD. Especially the details on the requirements that cause changes in the organisation are less known by ultimate investors.

TRANSPARENCY

Investors often emphasize the differences between the real estate as investment category and the other investment categories. The other categories have a much higher liquidity, no issues with governance, no issues with the valuations of the assets and the market is much more transparent. The other asset classes can be better monitored than real estate investments. The ultimate investors especially highlight this point. This can be explained by less involvement in the real estate market, since they outsource the management of their investments. The fiduciaries (that also manage funds themselves) have more affinity with the sector.

In general, the investors are well informed by the fund managers about the changes AIFMD causes and the associated costs. Most discussed topics in the shareholder meetings are the allocation of the costs and the remuneration policy of the fund manager.

Reporting of the fund managers

The investors do not expect major changes in the quarterly reports of the funds. The report-standards of the fund managers were already in line with the AIFMD reporting requirements. All investors confirm this; the information they receive is complete and sufficient. The fund managers did a good job in reporting last years.

However, some investors mention the quality of information about valuation of assets as less complete and sufficient. For investors, this information is not always completely transparent. They admit that the valuation process of real estate assets is much more complicated than for the other investment categories, so this explains the in-transparency for a part. Information of the valuation of real estate assets is more difficult to assess for an investor. In addition to that, investors often receive not enough information to be able to properly assess the valuation of fund’s assets.

But overall, investors do not expect changes in the reports of the funds since the quality of these reports already was high and the information complete.

Checks and balances FM

The investors of these funds do not expect substantial improvements or changes in the checks and balances of their fund managers. They do expect changes for fund managers of non-institutional parties (more private investors), where the supervision on checks and
balances before AIFMD was less. For these parties, there is more room for improvements.

The greatest addition AIFMD requires is a depositary for each fund; this is an extra “safety check” on the checks and balances of the fund manager. The investors expect a report of the depositary with the things they have monitored and findings. But this depositary check doesn’t change or improves the current checks and balances of the fund managers.

So, in general investors think the checks and balances of their fund managers will not change. There only will be an extra safety check on these checks and balances by a depositary.

An ultimate investor mentions the check of the depositary on the verification of property rights as improvement. This will improve the transparency of the fund manager’s processes.

The fund managers that participated in this research already had an external, independent valuer before the implementation of AIFMD. For parties that did not have this before AIFMD, this will be a major improvement on the transparency of the valuations.

**Asset management level**

AIFMD will not have a substantial effect on asset management level. It could be a small delaying factor in the buy/sell process and somewhat cost increasing due to the increased reporting standards on asset management level.

**Initiatives promoting transparency of the real estate market**

In general, the initiatives (PTA and StiVaD) are seen as positive developments on the real estate market by the investors that are familiar with these initiatives. Some investors are not impressed by the initiatives, but this is mainly because of ignorance.

Investors say these initiatives will influence on another level of the real estate market than AIFMD. These initiatives are more intended to improve the transparency on asset level. AIFMD is more intended to control the management of the fund manager, in order to prevent the sector of fraud-management. Also image improvements of the sector are mentioned as positive effect of these initiatives, - the sign that the sector is willing to become more transparent-.

They all admit that the valuation of real estate assets is cumbersome, especially in comparison with the other investment asset-classes. So the advent of these initiatives is very welcome. The more initiatives, guidelines, openness and uniformity, the better. But all investors note that sharing of information has to be uniform and veracious, otherwise the information is worthless (i.e. rents with incentives).

**INVESTOR BEHAVIOUR**

**AIFMD in due diligence**

AIFMD compliance is very important in the due diligence of new, potential investments. It is an obligation so necessary to do your business. AIFMD compliance, of the fund investors are interested in, is absolutely required. A fund with no license is a no go. The fund is not allowed to buy or sell assets without license, so you’ll invest in a dead fund. However, the
institutional investors say that their own requirements in a due diligence are of the same levels as AIFMD, or even more strict.

So, AIFMD is now a minimum requirement for AIFMs for professional investors. The rest of the issues (division of costs etc.) are subordinate of this.

Attractivity real estate as investment category

The opinion about the attractiveness of real estate as investment category differs between the different types investors.

The ultimate investors (the pension funds that not manage funds as their business, but outsource this) think the attractiveness will be positively influenced with AIFMD. The extra safety check of the depositary on the FM’s business will give the investor comfort and improves the transparency of the fund manager’s processes.

Fiduciary investors think the attractiveness for institutional investors will not change under AIFMD. They mention the extra costs as negative, but the other investment categories also have to deal with increasing regulatory costs. So, they expect that the willingness to invest will not change.

For people with less adequate knowledge of the real estate sector (private sector), real estate as investment category is probably more attractive under AIFMD, since there is more protection. With the extra safety check of the depositary, it will be less likely to invest in ‘bad funds’. However, the increase of the associated costs possibly does not outweigh this benefit.

Losers-game / winners-game

For a winner’s game you have to be innovative and dare to take risks. In a loser’s game, you can’t make mistakes. Formerly, being a pilot was a winner’s game, you had to have courage and it was quite a job to handle a plane. Nowadays, being a pilot is more a loser’s game. The automatic pilot is practically doing the job. But you are not allowed to make any small mistake. Investing on behalf of a pension fund is more a loser’s game; they can’t make mistakes, certainly not in the current financial climate. For private investors this is different, they are more focused on the return and less on the risks (more opportunistic).

Institutional investors fundamentally need to have their capital deployed in long-term income producing assets, since they are (often) pension funds. They need income to pay the pensions. So, they are much more sensitive to a long-term sustainable structure than more opportunistic investors.

When real estate as investment class becomes less attractive for opportunistic (smaller) investors, this has far-reaching consequences for the market. This will be discussed in the paragraph discussions.

Who benefits the most?

Here we have to make the distinction between short-term and long-term benefits. All investors mention the legal/financial consultants and depositaries as short-term winners of the AIFMD. On the long-term the depositary takes it all, organisations that offer the depositary service have a new business.
Ultimate investors are somewhat less pessimistic. They say that also the investor and fund manager can profit from the directive on the long-term. The comfort of an extra check on the processes of the fund manager is a benefit and increases the transparency of fund manager's processes. AIFMD filters the 'bad funds' out of the market; this can possibly improve the image of the real estate sector. Due to this, a fund manager can also benefit when the willingness to invest by investors increases caused by this comfort.

AIFMD has to do its work in the private sector. Institutional parties already had strict standards and here you can assume some professionalism. According to the investors interviewed: ‘Institutional investors shouldn’t need AIFMD’. Private investors are expected to benefit from the protection of AIFMD.

**Investment decisions**

Institutional investors are with AIFMD not better capable to make better considered investment decisions. AIFMD tightens the juridical and organisational aspects of the fund manager. Within the fund managers pool with AIFMD license it won't become easier to make well considered investment decisions.

The improvements in the decision-making process will be for the private investors. They are better protected by the check of the depositary. The risks will be better monitored.

**Real estate funds disadvantage?**

Most investors think that there are no disadvantages for real estate fund managers to comply with AIFMD in comparison with managers of other alternative investment funds.

Side note in this respect is that the investors interviewed are not fully aware of all requirements in detail and of the developments of AIFMD by other alternative fund managers.

Three investors mention that some requirements of AIFMD are not applicable for real estate funds. They say that it is obvious that the directive is more intended to regulate hedge- and private equity funds. But clear disadvantages for real estate funds are not recognized.

The requirements for an independent valuer mean for some parties that they have to outsource this activity, since they are not able to manage this independently in-house. AIFMD states that an external qualified valuation process also means that this external valuer calculates the NAV of the fund and decides on the P&L. For real estate fund managers, this is a disadvantage. They want to calculate the NAV and decide on the P&L the selves. For private equity and hedge funds, this is much more common.

One investor mentions the remuneration requirements as unreasonable for real estate fund managers. AIFMD requires that 50% of the remuneration has to be paid out in shares of the fund. For this manager this is impossible, since the articles describe that only pension funds are allowed to hold shares in the fund. This has led to a fixed remuneration for the personnel of the fund manager instead of a variable.

**RATIO RISK/RETURN**

**Distribution of AIFMD costs**

The division of the AIFMD costs is a sensitive, hot topic. Investors asked critical questions
about this in the shareholders meetings. The division of the AIFMD costs differs per fund; there is no univocal answer. Different revenue models of the fund managers and the agreements that have been made in the shareholders meetings caused this. Investors say that, in the end, the investors will pay the bill and therefore indirectly the participants of the pension funds.

Who should ideally pay?

The answer on this question is again different for the type of investor.

Fiduciary investors say that ideally the fund managers pay for the costs associated with AIFMD. ‘It’s their core-business, if the fund manager wants to proceed his business, he has to be compliant and prepared to bear the costs’. So, in the best way, the fund managers’ fee will be diminished in order to pay for the AIFMD costs. The investors that also manage funds themselves (fiduciary) have this point of view because they otherwise will bear double costs (double role). They also have to be compliant.

Ultimate investors say that in the best-case scenario the costs should be divided between the fund manager and the investors. They recognize some benefits for themselves, being an institutional investor (comfort and transparency through safety check) and benefits for the consumer-investor (protection). But the fund manager also has to pay a part, especially for the internal costs they make. On the long-term, when the image of the real estate sector possibly improves, the fund managers can also benefit from AIFMD.

Who pays in reality?

According to the investors interviewed, in reality the investor will pay most of the AIFMD bill. The costs do not have a significant impact for the investors (since the costs will be around 3 basis points). Investors think that these costs will be passed on to the investors of the fund, whether it is directly (lower performance) of indirectly (higher management costs).

One of the fund managers has got a different revenue model than the others, as explained in paragraph 3.3.1 (page 90). Therefore, in this case the investors will always pay the costs incurred.

Costs and benefits in balance?

Most (institutional) investors argue that the costs are not in balance with the benefits of AIFMD. The institutional investors already proposed demanding requirements to their fund managers. The extra costs caused by AIFMD, even though they are not substantial, were not needed. They question the benefits for investors like them. They do mention possible long-term (small) benefits such as; more comfort by the depositary check and positive effects for the real estate market as a whole (due to filtering out the ‘bad funds’).

So, short –term the relatively high initial costs are not in balance with the (questioned) benefits for institutional investors. Long-term, the annual costs seem to be in balance with the foreseen benefits. For investors in the private sector, the benefits are more recognized and therefore more in balance with the associated costs.

AIFMD specifically for these four funds

All interviewees say that AIFMD for these Dutch office funds was not needed or desired. These funds already functioned well without the directive.
The ultimate investors also say the directive was not necessarily needed, but they think it is a positive development for the sector. One investor mentions that there are some smaller investors in fund C as well, for them it is probably more desired since they have less capacity to monitor all processes and cash flows themselves. “They also have less knowledge on real estate investment in-house. So the check by the depositary is for them probably more desired than for a party of our size.“

Fund of funds managers say it was not needed and undesired.

**REACTION & TIMING**

**Reaction**

Fiduciaries think it is an exaggerated reaction, especially for institutional real estate fund managers and investors, who functioned well over the last years. They state the directive is more focused on hedge- and private equity funds and ‘coincidentally’ also real estate funds.

Ultimate investors state that it is good that there finally is supervision on AIFs. It straightens the difference between UCITS and AIFs.

**Other options**

Three investors cautiously say that the quality of the regulators has to improve. They should not add new regulations, but the current supervision of the regulators has to improve. A bigger role for the accountant is also mentioned as an option.

One ultimate investor mentions ‘a dynamic regulatory framework’ that anticipates on the risks in the market as best answer. But that is more a theoretical answer.

**Timing**

In general, the timing of the implementation of AIFMD is seen as good. One ultimate investor even says it’s a perfect timing. He believes that an earlier implementation had encountered more resistance. ‘People now are more risk averse and prepared to change’.

Another ultimate investor says that it could have been a better timing when it was earlier, to prevent the damage, which has occurred. So, he believes that a part of the financial crisis is owed to the behaviour of fund managers of alternative investment funds.

The fiduciaries are somewhat less positive about the timing (but in fact, about the whole directive). One states that the whole directive should not have been implemented anyway. The other fiduciary argues that the regulator itself, (AFM) was not ready yet. The AFM started asking for contracts and documents but was not fully ready to answer all questions. These questions arose because the directive is quite conceptual and leaves space for different interpretations. Fund managers (especially fund managers that serve institutional parties) are hiring consultants –just to be sure-, for advise on how to meet the requirements. These consultancy costs are caused by uncertainty. This uncertainty is cost increasing. These costs were possibly less necessary when the regulator would have been clearer from the beginning.
INTERVIEW WITH A SMALLER FUND MANAGER

In the interviews, most investors mention that the cost impact will be significant for smaller fund managers. This sounds logically; when you manage less assets, the cost impact will be bigger, due to economies of scale. This impact is possibly too big too handle for these fund managers. To have this confirmed, there has been an interview conducted with van Herk Group.

Van Herk Group exploits and manages real estate portfolios (circa 1,5 mrd.) existing of residential, retail, logistics and offices. The organisation also participates in businesses, listed- and private equity.

An external party has conducted an analysis on the 11 real estate funds van Herk manages. The outcome was that for none of these funds an AIFMD-license is required. They’re not in the scope. “Luckily they do not.”

This analysis also showed that the cost impact would be substantial and even unprofitable for the smallest funds. In this case, the management of the funds should be relinquished or the funds would have to be liquidated.

The direct costs as well as the indirect costs (changes that have to be made in the organisation) are too substantial for managers like van Herk. “Licenses like AIFMD bring too much hassle for smaller organisations”. They do not have enough staff to meet the AIFMD requirements and costs for a depositary for each fund are too significant. Hire new staff would make the costs even more substantial. “For us, being a fund manager in the scope of AIFMD is not a profitable business any more”. Van Herk decided not to market new real estate funds, avoiding the risk of coming in the AIFMD scope.

We also discussed the effects on the real estate investment market. The supply of real estate funds becomes more one-sided. Smaller fund managers will mainly disappear. This can be a positive thing, in case these parties were badly functioning. But in many cases, it will concern good-functioning, smaller parties. These parties are often more innovative and more prepared to bear some risks. It is a fall from grace when these parties drop out the market. So, it has a significant impact on smaller fund managers, managing funds for private investors. But also for the private investors, since they will have less choice.

MPC Capital also recognizes the significant cost impact of having one fund within the AIFMD scope with an AuM of 120 million EUR.
3.5 General results & findings

In the previous paragraph the outcomes of the cost impact surveys and interviews are described. In this paragraph we come to the general results and findings out of these data, whereby the sub-research questions can be answered. The sub-research questions will be answered briefly. A more elaborated answer can be found in the conclusion paragraph. The results and findings of the empirical research will be compared with the studied literature.

3.5.1 AIFMD impact on real estate fund managers

Through the use of 3 surveys for institutional fund managers of the three office funds and one additional interview with a smaller, private fund manager the sub-research questions can be answered.

Sub-research questions AIFMD impact for real estate fund managers – empirical
1. What is the direct cost impact?
2. What is the indirect cost impact?
3. What is total cost impact for real estate fund managers?

1. What is the direct cost impact?

It was difficult to compare the AIFMD costs of the three fund managers. The funds had different AuMs, different revenue models and different starting points (one only had to convert the license and two had to apply for a new license. Using the TER-ratio to compare the impact turned out to be insufficient. This ratio is affected by much more expenses than AIFMD expenses and the most important, also by the revaluations of fund’s assets.

Since these three fund managers already had an external valuer and accountant, this is not seen as AIFMD cost impact.

- Direct cost impact in basispoints

The direct cost impact (out of pocket costs) for the participating fund managers varies between 1.2 – 4.9 basis points (as % over the AuM of the office fund).

![Figure 69: AIFMD direct cost impact three fund managers](image)

- Allocation of the costs (division)

The allocation of the AIFMD costs varies between the fund managers. This mainly depends on the revenue model of the fund manager. On the next page, a summarized cost allocation per fund can be found. For fund managers with a management fee, the on-going, annual fund related costs (depositary and AFM registration costs) are borne by the fund.
**AIFMD costs with most impact**

In general; the on-going, annual depositary and AFM supervision costs have the most impact.

**Differences costs three fund managers**

Differences in the costs of the fund managers can be explained by:
- Different business models fund managers
- Conversion Wft. license to AIFMD or complete license application
- Control functions in organisation before AIFMD
- Complexity of fund (assets/structure/leverage). The costs for the depositary will be higher when the fund has more complex characteristics.

Some of the provided costs are questioned; the costs for the depositary of fund manager C in particular. I believe this is partly because of different interpretations of the definitions but also has to do with the transparency of sharing cost-data.

### 2. What is the indirect cost impact?

A general outcome of the survey on the indirect cost impact, whereby fund managers had to describe the changes caused by the AIFMD implementation, is that this **impact is minimal**. Real estate fund managers serving large, institutional investors already had most internal functions required by AIFMD. These parties have enough staff to add the new required functions. The three fund managers all had already an external valuer, so this is not seen as AIFMD impact.

**Fund manager A** only had to convert their AFM-license (wft.) to an AIFMD-license. Fund manager A says there is need for 0,5-1,0 fte extra on an annual basis.

**Fund managers B and C** have done a complete license application. For fund manager B, no intern changes were needed. Only some extra hours were made by a special AIFMD-team, but these hours are not substantial. Fund manager C also have set up an AIFMD-team (which have made substantial hours, expressed in project management costs of 118.000€).

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<table>
<thead>
<tr>
<th>FUND A (216.000.000 EUR)</th>
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<tr>
<td>fund manager</td>
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<tr>
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<table>
<thead>
<tr>
<th>FUND B (446.000.000 EUR)</th>
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</thead>
<tbody>
<tr>
<td>fund manager</td>
</tr>
<tr>
<td>Set-up: € 0,00</td>
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<td>Annual: € 58.000,00</td>
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<table>
<thead>
<tr>
<th>FUND C (1.206.552.000 EUR)</th>
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<tbody>
<tr>
<td>fund manager</td>
</tr>
<tr>
<td>Set-up: € 67.000,00</td>
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<tr>
<td>Annual: € 405.000,00</td>
</tr>
</tbody>
</table>

Figure 70: Allocation of AIFMD’s costs three fund managers
EUR). They need 1,3 fte extra on an annual basis.

Smaller, private fund managers tend not to have the same resources as the large, institutional fund managers. The internal changes that have to be made to meet the requirements of AIFMD will have much more impact on the organisation.

3. What is the total impact for real estate fund managers?

Concluded can be that the total impact of AIFMD on real estate fund managers depends on the size of the firm. In the large, institutional fund managers segment there is also a difference in impact depending on whether the AIFM already had a Wft. license or the AIFM had to do a complete license application, the degree of risk management (functions) in the organisation before AIFMD and the complexity of the fund.

Large, institutional fund managers have a smaller total cost impact than expected beforehand. Smaller fund managers serving private investors have a more significant total cost impact that can have the consequence to shut down (unprofitable business).

The direct cost impact result showed that the fund manager with the biggest AuM had the biggest impact. This seems in contradiction with the statement above. Within the pool of large, institutional fund managers it would not always have to be the case that ‘the smaller, the more impact’. Within this pool, there can be exceptions caused by other factors (complexity of the fund) and these impacts won’t be significant.

However, in general the fund managers with the smallest AuM will suffer a bigger impact. The “economies of scale effect” has a tipping point somewhere. From there the impact will be exceptional and has the potential to result in an unprofitable business. Parties close to the AIFMD hurdle rate are likely to suffer the biggest cost impact.

Direct (out of pocket) costs for large, institutional fund managers are measured as impact in % over the AuM of the funds. This impact is between 1,2 – 4,9 basis points.

For the large, institutional fund manager, the indirect cost impact contains changes as extra fte’s for a risk manager and staff for providing the depositary with the required information. The indirect cost impact for the participating fund managers varies between nil to 0,5 – 1,3 fte annual extra. All three had an AIFMD project team that has made extra hours. For two fund managers these hours were not significant. One fund manager has made substantial hours with the AIFMD team, expressed in project management costs of 118.000 EUR.


**Literature match / mismatch**

In chapter 2, paragraph 2.7, literature is reviewed about the expected AIFMD on real estate fund managers. Now we have seen the allocations of the out of pocket costs and we know the internal changes that had to be made for three large, institutional real estate fund managers, we can compare the outcomes with the literature.

In literature, the **reporting requirements** of AIFMD are described as very demanding and time consuming. The fund managers that participated in this research already had such high reporting standards, so the impact of this requirement is nil. The detailed reporting to the regulatory authorities is new, but in practice this will be a duplication of already available information and reports. For smaller fund managers that were not used to such high reporting standards this does have a significant impact.

The most significant impact, direct as well as indirect, is the **depositary**. This is in line with the expected most significant cost impact according to INREV. The depositary task also requires internal changes since someone has to provide the required information to the depositary. This causes extra fte’s in the fund manager’s organisation.

Internal, the **risk manager function** is required. This function causes extra fte’s in fund manager’s organisations.

The required **independent (external) valuer** was not an issue for these three fund managers, since they all already had an independent, external valuer. The valuer is for these parties not seen as an AIFMD cost impact. Literature did describe this issue especially for smaller fund managers. Smaller fund managers often have trouble with managing the valuation process independent, internal. They have to qualify their valuation process external, while the larger fund managers can qualify this process as (independent) internal. The larger fund managers do have an external valuer, but in the end there will be decided on the valuations internal (and also calculate the NAV and P&L internal).

For smaller fund managers the costs for an external valuer do have a significant impact since they often hadn’t had an external valuer. Having an external qualified valuation process under AIFMD has the consequence the external valuer also calculates the NAV and decides on the P&L. In the revised reflection paragraph (4.2.1), this point will be discussed.

Beforehand, fund managers did not except to pass on all costs to the fund. The opinions about the **AIFMD cost distribution** were very diverse. It turns out that this is also reality. The cost allocation depends on the revenue model of the fund manager and the point of view of the shareholders, since the allocation of the costs was indeed a point of discussion in shareholders meetings.

Looking back to the research of INREV, the **overall cost impact** is less than expected. Literature research estimated an impact of 6-7 basis point (as % over the AuM) while this research estimates an impact of 1,2 - 4,9 basis points; whereby the 4,9 is an exceptional impact. The investors of the funds mention in the interviews that they only experience 2-3 basis points impact over their return. This is less than was estimated by INREV (see figure 72 on the next page).
## Summary of Business Impact Analysis AIFM

Cost in % over AuM and effect on investor returns

<table>
<thead>
<tr>
<th>Category</th>
<th>Set up cost</th>
<th>Annual Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOP LEVEL</td>
<td>WHOLE STR</td>
</tr>
<tr>
<td>Depositaries - Top Level</td>
<td>2.5 bp</td>
<td>-</td>
</tr>
<tr>
<td>Depositaries - Whole Structure</td>
<td>-</td>
<td>4 bp</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.2-0.4 bp</td>
<td>0.2-0.4 bp</td>
</tr>
<tr>
<td>Registration</td>
<td>1 bp</td>
<td>1 bp</td>
</tr>
<tr>
<td>Reporting &amp; Disclosures</td>
<td>0.15 bp</td>
<td>0.15 bp</td>
</tr>
<tr>
<td>Registration</td>
<td>1 bp</td>
<td>1 bp</td>
</tr>
<tr>
<td>Risk Management &amp; Compliance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Own Funds or Indemnity Insurance</td>
<td>1 bp</td>
<td>1 bp</td>
</tr>
<tr>
<td>Delegation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PM: Securitisation</td>
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<td>-</td>
</tr>
<tr>
<td>Totals in % over AuM (GAV)</td>
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<td>7.5 bp</td>
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<tr>
<td>Total effect on return (50% LTV)</td>
<td>±12 bp</td>
<td>±15 bp</td>
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</table>

Figure 72: Expected AIFMD business impact (INREV, 2011)
3.5.2 Effects on and for investors

Through the use of 8 qualitative interviews with institutional investors of the three office funds and one additional interview with a smaller, private fund manager the sub-research questions can be answered.

Sub-research questions transparency of the real estate investment market – empirical

1. Is there more information available with the new way of AIFMD-reporting?
2. Does this extra disclosure lead to better investment-decisions?
3. Does AIFMD change investor behaviour?
4. Does AIFMD lead to more transparency in the real estate investment market?

1. Is there more information available with the new way of AIFMD-reporting?

During the interviews with the institutional investors it became clear that most questions could be answered in two ways; from the perspective of the institutional investor or for the private real estate market and the market as a whole. For institutional investors there won’t be more information available with the new way of AIFMD-reporting. ‘The new way’ of reporting is not new for these parties since the reporting standards before AIFMD are comparable or even more demanding. However, it is expected that more information will be available for the private real estate investors. Generally, fund managers of these private real estate funds did not have such high reporting standards before AIFMD (although they were already regulated by “retail top up”).

2. Does this extra disclosure lead to better investment-decisions?

Institutional investors are with AIFMD not better capable to make better considered investment decisions. AIFMD tightens the juridical and organisational aspects and processes of the fund manager. Before AIFMD, institutional investors already had due diligence requirements that were of the same level as AIFMD or even stricter. Within the fund managers pool with an AIFMD license it won’t become easier to make well-considered investment decisions.

The improvements in the decision-making process will be for the private real estate investors. Private investors often have less specific real estate knowledge and a less demanding due diligence. AIFMD is able to filter the bad functioning and managed funds out of the market. Therefore, private investors are better protected and able to make better future investment-decisions. The check of the depositary can give insights in the processes of the fund managers. When there are indications of irresponsible behaviour of signs of occurrence of excessive risks, the investors is now more warned and can decide to retract.

3. Does AIFMD changes investor behaviour?

AIFMD certainly affects investors’ behaviour. To what extent depends on the investor type. The attractiveness of real estate as investment category depends on the balance between the costs and benefits of the investment. The costs and benefits of AIFMD are different for different types of investors.

In general, the attractiveness of real estate as investment category does not change for institutional investors. There is a small difference between institutional ultimate investors and institutional fiduciaries. Ultimate investors mention they have some transparency benefits, while fiduciaries mention AIFMD brings no benefits for them. For ultimate investors, the small
cost impact is more in balance with the benefits than for fiduciaries. But in general, AIFMD is not expected to have effect on the behaviour of institutional investors.

Private investors are better protected under AIFMD, so this is a clear benefit. However, the significant AIFMD cost impact for fund managers of smaller, private real estate funds also results in significant costs for private investors (less return). The annual AIFMD costs will mainly be passed on to the investors. The private real estate investment sector becomes more expensive. According to a private real estate fund manager “too expensive”. These investors are likely to search for other investment categories than real estate.

4. Does AIFMD lead to more transparency in the real estate investment market?

This report argues that AIFMD is expected to lead to more transparency in the real estate investment market. However, these transparency benefits are different for different types of investors.

It mainly depends on the knowledge of the investor. The less knowledge you have, the more you will benefit from AIFMD’s transparency effect. Attention here, these investors will benefit from the increased transparency but do suffer a significant cost impact caused by AIFMD. This answer solely focuses on the transparency benefits for the market.

Put shortly, short-term benefits are mainly for private investors due to increased protection by filtering the ‘bad funds’ (less pitfalls) out of the investment market, since these funds are not able to meet the requirements of AIFMD. Ultimate investors do have a small short-term benefit. They recognize the safety-check of the depositary as improvement on the transparency of the processes of the fund manager. This gives the ultimate investors comfort. On the long – term, the whole real estate sector can benefit from these transparency improvements as the image can improve due to less cases of fraud and more investor confidence.

Literature match / mismatch

Literature described the importance of transparency in (financial) markets. All interviewees admit this importance and note that the transparency of the real estate market is far less transparent than the other investment categories. Real estate fund management requires transparency and integrity in order to be competitive with other asset classes (INREV, 2012).

AIFMD intends to cause: “Investors protection by transparency and disclosure”. As read before, this benefit is solely the case for private investors. In general, institutional investors do not experience more disclosure and transparency than before AIFMD; they only experience the cost impact. Thus, this group does not experience the intended protection and transparency as stated.

Also the statements made in literature about “more available information” and “better investment decisions” only relate to the private part of the investment market.

However, AIFMD does contribute to the transparency of the market on a certain degree.
4. LIMITATIONS

Before answering the main research question the limitations of this research will be described to put the conclusions in perspective. This research is a zero-measurement mainly based on opinions about expectations and data about (expected) costs. The real experiences are still to come.

This paragraph will focus on the difficulties that were encountered during this research project. Discussing the difficulties is important since a reflection on the methodology enables the reader to judge the results in a more critical manner.

1. Limited accessibility of data and the sensitivity of information
It appeared to be difficult to gather the desired information to be able to answer the main research question. The early stage of implementation and in some cases, the not finished implementation led to a limited accessibility of the desired data. Furthermore, the data is labelled as sensitive since it constitutes absolute numbers of costs, expense ratio’s, fees, shares in funds and detailed information about the AIFMD progression. If this information can be linked to the organisation and becomes public, it can worked out to be a disadvantage for the organisation. Also the opinions of the investors of the funds contain sensitive statements. The respondents require absolute anonymity. The limited accessibility of data and the sensitivity of information made it more time-consuming and more difficult to gather and to process the data.

2. Status quo AIFMD – limited availability of literature
Due to the recent implementation of the directive there is not much literature specifically about AIFMD and certainly not about the cost impact for fund managers or the effects for the real estate investment market. For gaining more insight in the features of the AIFMD and to be able to review the AIFMD critically, I spoke with several professionals in this field. Joost Donders (Consultant Real Estate Advisory, Deloitte), Jeff Rupp (public affairs, INREV), Casper Hesp (Head of research, INREV) and Loes Meerburg (Candidate civil-law notary, De Brauw Blackstone Westbroek) gave me useful insights, in order to write a useful, reliable and critical theoretical framework.

It also seems too soon to draw big conclusions on the effects on investors and the real estate investment market. The directive has just been implemented in the organisations. This research is a zero-measurement mainly based on opinions about expectations and data about (expected) costs. The real experiences are still to come.

3. Methodological problem with quantifying indirect costs
The original idea was to quantify the AIFMD cost impact. So the direct -out of pocket- costs as well as the indirect costs. Quantifying the indirect costs turned out to be impossible in the scope of this research. Based on literature of quantifying the indirect costs of regulations in the security market and a meeting with drs. Koppels, the decision was made to qualify the indirect costs of AIFMD instead of quantifying these. Literature taught me it is very difficult to measure the indirect cost impact of regulations. Drs. Koppels advised me to make a “zero-measurement” on the fund managers organisation and track changes made by the AIFMD requirements. Comparing organograms of before and after implementation causes the risk of misinterpretation or missing important changes. So, I asked the fund managers to describe the major changes within the organisation, caused by the AIFMD compliance.
4. Compliance officers’ view on (estimated) costs
The direct and indirect costs are given by compliance officers of the fund manager’s organisations. I believe that compliance officers are more inclined to overestimate the (added) value of compliance (since their responsibility lies in the compliance of the organization) and, since the survey is completed by compliance officers, the costs may be somewhat higher than a manager would estimate.

5. The value of qualitative data
It has proven hard to effectively assess the value of information obtained in interviews. Since an interview exposes the opinion of the interviewee, and therefore his subjective view on a certain topic, statements cannot be treated as facts. An opinion that is not verified involves the uncertainty of deviating from reality. Figure 75 shows the information devaluation chain. Subjective perception results in loss of information in any phase transition. Minimizing the loss of information in the transition from reality to interviewee is difficult. Verification and valorisation of an interviewee’s statement should minimize the risk of wrong factual information being picked up by the interviewer. Systematic and thorough reviewing should minimize the risk of wrong factual information finding its way into this report.

6. Institutional point of view investors
The interviews are conducted only with institutional investors. This causes a more narrow-minded view on the AIFMD effects for investors. The spoken institutional investors recognize effects for more private investors. It would have been of great value if I also had spoken with more private investors to gauge their opinions.

7. Difficult to compare impact on the Total Expense Ratio
Comparing the AIFMD impact on the TER seems to be difficult. Not all TER-ratios are built-up with the same expenses. This makes the comparison difficult. More uniformity would make this easier (for investors).

Another reason is the formula of the TER.

\[
\text{Total Expense Ratio} = \frac{\text{Total Fund Costs}}{\text{Total Fund Assets}}
\]
As can be seen, the total fund costs and the total fund assets influence the TER. So, the TER is also influenced by revaluations of fund assets. All three funds had to deal with devaluations of fund assets. This impacted the TER and makes it difficult to compare the AIFMD impact on the TER-ratios of the fund managers.

8. Mysterious behaviour AFM
During the research process several spin-offs arose regarding the regulatory entity. I decided to try to arrange an interview with someone of the AIFMD team of the AFM. After ten phone-calls I finally had someone prepared to talk to me about my research. I prepared several questions but it turned out that nearly all questions couldn’t be answered. The AFM acts mysterious about the status quo and won’t share experiences. The questions I prepared can be found in appendix 7.
5. CONCLUSIONS

This chapter provides the general conclusions of this thesis research and answers the main research question. Furthermore the paragraph 'discussions' will elaborate on the link with the built environment and provides a critical reflection on the findings. The recommendations are discussed since some possibly interesting spin-offs arose in the course of this research. Last but not least, this chapter includes a reflection on the scientific and societal relevance, the scientific validity of the research results and a short reflection on the graduation process.

5.1 Conclusion

Prior to the empirical research, the theoretical framework described the context this research operates in. The fund industry with its characteristics is described and important questions concerning the origins of supervision, the importance of transparent markets, the impact of more control, AIFMD objectives, AIFMD requirements and the expected impact are answered through an extensive literature research.

Hypothesis

According to the problem statement, the following hypothesis was formulated:

• AIFMD causes a significant impact on real estate fund managers
• AIFMD will contribute to the transparency of the real estate investment market

The empirical research findings and literature study enabled me to answer the main research question and to test the hypothesis.

“What is the impact of AIFMD on real estate fund managers and does the directive contribute to the transparency of the real estate investment market?”

Cost impact for real estate fund managers

Concluded can be, that the AIFMD impact on real estate fund managers differs according to the size of the fund manager, to the degree of control functions present before implementation and to the complexity of the fund.

Figure 74: AIFMD cost impact on RE FM’s conclusions
Four sub-conclusions can be drawn:

1. **For large, institutional fund managers → no significant cost impact**

   The empirical research, conducted with three institutional real estate fund managers, proved that the AIFMD cost impact for these parties is not significant. According to literature research it was expected that the cost impact would be between 6-8 basis points over the AuM of the fund. This research argues that this impact is **3 basis points in general**. So fund management becomes **somewhat more expensive, but less than expected**. Nevertheless, these cost are labelled as **unnecessary, double costs**, since institutional fund managers and investors do not recognize AIFMD-benefits for them.

   A difference in cost impact by large, institutional fund managers is noticed. One fund manager only had to convert its Wft. license to an AIFMD license. This means that less changes had to be made and the AFM was earlier able to approve on the AIFMD license. The other two fund managers had to do a complete license application. This requires much more time and more changes had to be made in the organisation. Also the complexity of the fund (assets, structure, leverage) causes differences in cost impact.

2. **Smaller, private fund managers → suffer significant cost impact**

   For smaller fund managers operating in the more private investor segment, the cost impact of AIFMD is **much more significant**, for some resulting in an **unprofitable business**.

   The AIFMD costs have much more impact on a smaller AuM (**economies of scale**). And smaller, private fund managers tend not to have the same resources as the large, institutional fund managers. The internal changes that have to be made to meet the requirements of AIFMD will have much more impact on the organisation. The private real estate investment sector becomes **more expensive**.

3a. **Opinion about ideal cost allocation depends on investor type**

   Cost allocation has been a **point of discussion** in shareholders meetings. The opinion about who should ideally bear the costs differs. Fiduciaries argue that the fund manager should bear the costs, since it’s their business. Noteworthy to say, fiduciaries see no benefits coming with AIFMD and also have AIFMD costs for obtaining their own license, so they fear for double AIFMD costs. Ultimate investors argue that the costs ideally should be shared between the manager and the investors, because they see small benefits.

3b. **Actual cost allocation depends on revenue model FM**

   The actual costs allocation mainly depends on the revenue model of the fund manager. If the fund manager is in **paid employment by the shareholders** (and owned by the shareholders), the fund’s expenses logically are for the shareholders. When the fund manager works with a **management fee**, it can be discussed in shareholders meetings whether the costs will cause a lower management fee or a lower return. It turned out that this discussion mainly ends with **splitting the costs**, whereby the license application AFM costs will be borne by the fund manager and the other on-going annual costs by the fund (i.e. the depositary). However, most investors think that they, either way, **indirectly always pay the bill** (more management costs).
4. Cost impact by FM’s causes effects on real estate investment market

Additional conclusion

At the start of this research, the cost impact for real estate fund managers and the effects for the real estate investment market were seen as two separate elements. Now, after the empirical part of the research, concluded can be that these two elements are closely related.

As read before, AIFMD causes a significant cost impact on smaller, private fund managers caused by the economies of scale effect. This definitely affects the real estate market. The private real estate sector becomes much more expensive and a private funds that cannot manage this cost impact possibly drop out the market. The real estate investment market will re-scale. There will be less choice for private investors and the remaining funds will be more expensive and one-sided. Larger, institutional funds will probably take over the best performing assets of the smaller funds.

![Diagram](Image)

**COST IMPACT FM'S**

- economies of scale

**REAL ESTATE INVESTMENT MARKET**

- more expensive, especially the private real estate market
- re-scale (less choice and more onesided)

Figure 75: AIFMD cost impact FM’s affects the real estate investment market

In the discussion part the effects of these possible developments will be discussed.
Transparency of the real estate (investment) market

This report argues that there will be transparency benefits for the real estate investment market caused by the implementation of AIFMD but it is too soon to determine the real value of these benefits. These benefits are different for different types of investors. The graph below gives an indication of the expected transparency benefits and summarizes these transparency benefits per investor type. (The graph shows the relative change with respect to their starting points. This doesn’t mean that their current transparency levels are equal).

Transparency benefits mainly depend on the level of knowledge and involvement of the investor

Figure 76: AIFMD transparency benefits

P = Private investors, U = Ultimate investors, F = Fiduciaries

Thee sub-conclusions can be drawn:

1. Short-term transparency benefits mainly expected for private investors

Short term, private investors are expected to benefit the most of AIFMD. AIFMD is likely able to filter the bad managed and bad performing funds out of the investment market and will improve management and processes of other (smaller) fund managers. Especially the
requirements on the conflicts of interest, the independent (external) valuer and the monitoring of cash flows will improve the transparency of fund managers’ processes. Therefore, private investors are expected to be better protected against investing in fraud-management with irresponsible acting managers or in funds with unreasonable risks (that they do not identify).

Ultimate investors see small transparency benefits from AIFMD; the safety check of the depositary slightly increases the transparency of fund managers processes and gives comfort.

Short term, institutional fiduciaries do not recognize transparency benefits from AIFMD. These parties already had checks, balances and requirements that ensured transparency of the fund managers’ processes. AIFMD only causes unnecessary costs, although these are not significant.

2. Possible long-term benefits for the real estate market as a whole

On the long-term; AIFMD is probably able to improve the image of the real estate sector. When less fraud-management in the sectors occurs, the news and media will be more positive. A better image caused by less cases of fraud contributes to investors’ confidence of which the whole real estate market can benefit.

3. Transparency benefits mainly depend on the level of knowledge, experiences and involvement of the investor

The opinions on the AIFMD topic in relation with the transparency of the market vary between ultimate investors and fund of funds managers. Ultimate investors only experience AIFMD and fund management activities through their fund manager. Fund of funds managers (fiduciaries) manage funds their selves and also have to be AIFMD compliant, so they are much more familiar with AIFMD and fund managing processes.

The transparency benefits of AIFMD depend on the level of knowledge and involvement of the investor in the fund managing processes. The more knowledge and involvement (in fund managing processes), the less short-term transparency benefits. The less knowledge, the more protection you need as investor. So in this sense, AIFMD gives protection to the private investors that are generally less experienced and involved.

Fiduciaries are fund of fund managers, so they fully understand the fund managing business and processes. Because of their expertise, experience and involvement they do not benefit from the investor protection AIFMD gives.

Ultimate investors directly invest in externally managed real estate funds. Generally they are less involved with the fund managing processes and do not make real estate investment decisions themselves. They invest in a certain fund that is managed by an external firm that makes the investment decisions for them. Therefore, in general, ultimate investors expect to benefit from AIFMD due to the safety check of the depositary that gives the investor comfort.

Generally speaking, private investors are the least involved with fund management processes and their expertise and experiences are less. Private investors are expected to benefit the most from AIFMD short-term, since they are more protected.

This report argues that transparency benefits are expected for the real estate investment market, caused by AIFMD. However, it is currently not yet possible to define the degree of
this positive effect. It is too soon to determine the exact benefits for the real estate market since the implementation of the directive is recently passed, or in some cases still going on. The expectations about the transparency benefits are based on opinions of professional investors. The real effects are yet to come.

Below, the key findings of this thesis research are briefly enumerated. These findings are obtained through the literature review and, in particular, the case studies of which the surveys provided insights in the cost impact and the interviews on the effects for investors and on the real estate investment market.

General conclusions of cost impact on real estate fund manager

<table>
<thead>
<tr>
<th>General conclusions cost impact AIFMD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost impact for large institutional fundmanagers less than expected (7 to 2 a 3 bp)</td>
</tr>
<tr>
<td>Cost impact for smaller (more private) fundmanagers more significant</td>
</tr>
<tr>
<td>Economies of scale - smaller fundmanagers less able to manage AIFMD cost impact (unprofitable)</td>
</tr>
<tr>
<td>Expenses with most impact on TER are; the depositary and AFM costs</td>
</tr>
<tr>
<td>Indirect costs for large, institutional fund managers not significant</td>
</tr>
<tr>
<td>Indirect costs for smaller (more private) fund managers more significant</td>
</tr>
<tr>
<td>Allocation of AIFMDs' costs is a point of discussion</td>
</tr>
<tr>
<td>Fiduciary's &gt; FM pays - double costs</td>
</tr>
<tr>
<td>Ultimate investors &gt; split costs</td>
</tr>
<tr>
<td>Costs allocation mainly depends on revenue model FM</td>
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<td>AIFMD costs will mainly beared by the investors of the funds</td>
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General conclusions of effects for investors and on the transparency of the real estate investment market

<table>
<thead>
<tr>
<th>General conclusions effects for investors and on the real estate investment market</th>
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<tbody>
<tr>
<td>Short-term, private investors have the most transparency benefits of AIFMD</td>
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<tr>
<td>Different views investors</td>
</tr>
<tr>
<td>Fiduciary's don't see benefits - own requirements often more strict (for DD)</td>
</tr>
<tr>
<td>AIFMD is seen as extra check-list rather than bringing real improvements</td>
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<tr>
<td>- no changes in reporting expected</td>
</tr>
<tr>
<td>- no changes in checks and balances expected</td>
</tr>
<tr>
<td>- ratio risk/return off-balance - double costs - although costs are not significant</td>
</tr>
<tr>
<td>Ultimate investors recognize some benefits for them</td>
</tr>
<tr>
<td>- play a losers game, 'safety-check' of depositary gives extra comfort</td>
</tr>
<tr>
<td>- ratio risk/return more in balance, but not in balance</td>
</tr>
<tr>
<td>All institutional investors think AIFMD can improve the image of the real estate sector on the long-term</td>
</tr>
<tr>
<td>Real estate investment market can profit from AIFMD on long-term (filter out bad funds, more control on conduct)</td>
</tr>
<tr>
<td>More protection for private investors (with less knowledge and involvement)</td>
</tr>
<tr>
<td>In general, initiatives like PTA and StVoD seen as useful to improve transparency short-term</td>
</tr>
<tr>
<td>Improvements on valuation process real estate desired by all investors</td>
</tr>
<tr>
<td>Too soon to determine real value of transparency benefits</td>
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</tbody>
</table>
5.2 Discussions

After the theoretical framework a critical reflection of the most important findings and identified knowledge gaps is written (see paragraph 2.8). Now the empirical research is conducted, new insights arose and the critical reflection can be extended. This resulted in a revised critical reflection on the AIFMD topic based on theoretical and empirical findings.

Another point of discussion is whether this topic has a link with the built environment, since this graduation research is done on the Faculty of Architecture, Urbanism and Building sciences at the University of Technology in Delft.

5.2.1 Revised critical reflection on AIFMD

Appropriate reaction

Over-regulation

“Since success for a regulator, when the costs of regulation are not taken fully into account, can be measured by the absence of newsworthy failures, the incentive will be for over-regulation”. (Goodhart, 1988) in (Julian Franks, 1998)

Market failures are often highly visible to the public. These failures potentially damage regulators and politicians. The costs of avoiding these market failures are less obvious (to the public). So, in the public debate on the regulatory process, the issue ‘value-for-money’ does not easily find place (Julian Franks, 1998). I think that, for these reasons, it should be desirable to make the public more aware that regulation (in financial markets) is not a free good and that there is a trade-off between the costs of this regulations and investors protection. This especially applies to AIFMD for the institutional fund managers; they deal with unnecessary, double costs.

Monitoring managers

The financial crisis of 2008 shows evidence of managers' behaviour as one of the main causes of the crisis. Responsibility is shared between “greedy” managers, “irresponsible” governance and “incompetent” auditors (Etienne Farvaque, 2011). In this sense, AIFMD is a good step forward since the processes and conduct of the fund managers will be monitored by an external depositary.

However, disclosure about these processes does not mean disclosing true information about these processes. Fraud remains a threat that hangs over investors, although this threat will be minimized for some investors who were less involved before AIFMD. For institutional investors, there was no need for this “extra safety check”, since they already monitored the fund managers themselves.

One-size-fits-all

Ideally, regulation should be tailor-made and adapted to organisational characteristics (size, legal form, sector, risk profiles, etc.). When this is not the case, (disclosure) regulation can create unfair competition and regulatory capture (Etienne Farvaque, 2011).

Regulatory costs are high and unequally distributed. The smallest firms or some sectors or
activities bear the costs more heavily. The one-size-fits-all approach is probably insufficient.

This research focused on large, institutional fund managers and investors, all in the same ‘league’. This league only covers a part of the real estate investment market. These parties have a critical mass (large AuM) whereby the AIFMD cost impact is not significant. For smaller fund managers and investors, this is another story. The AIFMD costs have an overwhelming impact on the return of the fund and the profitability of the fund manager. In addition to this, the internal organisation requirements (compliance officer, internal auditor, risk manager) are more difficult to organize for smaller fund managers. This will cause a significant cost impact as well.

**Disadvantage real estate funds?**

This thesis research does not provide enough evidence to prove real estate funds are at disadvantage compared with other AIFs under AIFMD. However, some fiduciaries mention requirements that are not applicable or difficult to apply to real estate funds and say it is obvious the directive is more designed to regulate the managers of hedge- and private equity funds. But this is too straightforward to conclude this is a disadvantage since we are not aware of the experiences of other types AIFs.

However, the following example illustrates the insufficiency of the one-size-fits-all approach of AIFMD. A recognized problem concerns the external valuer. When having an external qualified valuation process, the external valuer has to conduct the valuations of fund’s assets (with an unlimited liability) as well as the calculation of the NAV. For many real estate fund managers this is a problem. For private equity or hedge funds this is much more common, but for real estate it isn’t. Real estate fund managers want to calculate the P&L and NAV themselves.

This disadvantage of external managed valuations will stimulate fund managers to qualify the valuations process internal when it is possible to organise this independent internal. This seems to be at odds with other alternatives (also alternatives of AFM) to improve the transparency of valuations.

**Economies of scale – AuM of the fund manager**

Managing a smaller AuM will cause a bigger AIFMD cost impact and larger organisations are better able to organize and to influence the definition of rules than the smaller, younger firms (Etienne Farvaque, 2011).

The dropout of smaller fund managers of the market can be seen as positive, since these parties more often cause fraud (since there was less knowledge and involvement by the investors). So, deleting these parties from the market probably contributes to the transparency of the real estate investment market and will protect (less informed) investors more. In the end, it can possibly improve the image of the real estate sector.

However, I believe that with the one-size-fits-all approach of AIFMD, also good-functioning, smaller fund managers will be forced to dropout the market. The result will be that the real estate investment market will re-scale. There will be fewer suppliers of real estate funds and the suppliers that are left, provide more expensive, one-sided funds.

The regulatory economies of scale not only affect the smaller fund managers but also the private investors (used to invest in these funds). These private investors will have less choice
and often have insufficient capital to invest in professional managed funds. This possibly results in a flow of capital to other investment-categories. Although private investors will be better protected (AIFMD filters out 'bad funds'), the funds that are left will be more expensive due to the significant cost impact of AIFMD.

**Winner's or loser's game?**

Related to these developments, there is a possible problem with finding capital for the **social challenges in the real estate market**. Innovation will be reduced. Smaller fund managers with private investors are more often more prepared to take risks, whereby innovation is encouraged. This contributes to the sustainability of the real estate market. They are more prepared to play a winners-game and more opportunistic for challenging investments. The requirements of AIFMD and the associated costs not only filter out existing smaller funds but also create an **entry barrier** for new ones. **Innovation** often comes from start-ups, but these parties will not be able to be profitable under AIFMD. The larger fund managers, managing funds for institutional investors, look for safe, long-term, low-risk investments. They play a losers game, whereby nothing can go wrong. This goes not hand in hand with innovation, sustainability and courage.

<table>
<thead>
<tr>
<th>LOSERS-GAME</th>
<th>WINNERS-GAME</th>
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<tr>
<td>low-risk</td>
<td>more opportunistic</td>
</tr>
<tr>
<td>long-term</td>
<td>innovation</td>
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<tr>
<td>safe-choice</td>
<td>sustainability</td>
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<td></td>
<td>rezoning vacancy</td>
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<td></td>
<td>courage</td>
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**EU fund industry**

Another pitfall of the one-size fits all approach is that funds (that are not able to manage AIFMD) possibly search for countries that AIFMD does not apply to in order to evade from the regulation. This should be contra productive, since this reduces the EU investment activities. This is a threat for the EU fund industry; AIFMD can possibly be a **competitive disadvantage for the EU fund industry**. This does not strengthen the supervision and economic growth of Europe. The developments of supervision of AIFs in countries not in scope of AIFMD are not is scope of this research. The statement of a possible competitive disadvantage for the EU fund industry is therefore a statement assuming no regulatory changes in these other areas.

To summarize, the disadvantages of the one-size-fits-all approach are:

- Institutional parties have unnecessary costs (and in the end the pension holders pays)
- Small fund managers and private investors suffer more (unprofitable business)
  - Real estate investment market rescales (less choice, more one-sided)
  - Possible flow of capital to other investment categories
  - Innovation reduced, threat for social real estate issues
  - Entry barrier start-ups, threat market dynamics
  - Funds search for non-EU domicile, threat EU fund industry

In my eyes, AIFMD should be more tailor-made, especially taking the size of the firm into account, to prevent the real estate investment market from becoming more one-sided, less
available for private investors (with all its consequences) and to avoid unnecessary costs for institutional parties.

**Additional lessons**

Shifting real estate investment market
Market will re-scale > less - more onesided - choice

Private investors
Will have less choice - possible flow of capital allocation to other investment-categories
Although they are better protected - AIFMD filters out 'bad funds'
And what's left for them will be much more expensive - economies of scale cost impact AIFMD

Threats for the real estate market
Entry barrier start-ups
Capital to other investment categories
Capital for the social challenges - sustainability, innovation, rezoning vacancy
Competitive disadvantage EU fund industry

**Transparency**

**Transparency benefits for private sector with a question mark**

AIFMD contributes to the transparency of the real estate investment market since it filters out the ‘bad funds’. Especially for private investors this is a benefit, since they are more protected for their ignorance. However, as the smaller, private fund managers cannot manage their funds under AIFMD and the private real estate investment market shrinks (other jurisdictions, other investment categories, entry barriers), this transparency benefit is far less effective.

**Illusion of knowledge**

It can be a threat when shareholders have the impression of having information and supervision, because of an imposed policy. They will be much less vigilant than without ‘protection’. They will simply have an illusion of knowledge, rather than a real knowledge. They can therefore possibly take decisions wrongly believing that they have the relevant information. They may be overconfident.

“This excess of self-confidence by participants in the financial market fuels speculative bubbles, and destabilizes the markets, as behavioural finance shows and the current crisis illustrates. Whatever the regulation is, disclosure, far from providing the financial stability desired, can on the contrary cause crises. The quality of information can reduce this risk, but an important problem remains: the actual incentive to search for, to read and to understand information when people think they know” (Etienne Farvaque, 2011).

Maybe it is safer to create risk awareness by less regulation and let investors think twice themselves instead of giving the comfort of three double regulations, which are not yet proven to be waterproof.
Role of the depositary

The regulators have put an important part of public supervision in hands of commercial parties – the depositary. Supervision by commercial parties provokes conflicts of interest between supervision and commerce. A good example of this is what is happened in the accountancy sector. Accountants have expanded their business from solely the supervision, checking task to more strategy, advice and commerce. We have seen remarkable problems caused by the conflict of interest of these businesses (i.e. KPMG). This is a possible threat for the role of the depositary.

Many interviewees stated that the depositaries are the big winners of the coming of AIFMD. To some degree, this is true, since a whole new business arose. However, there is a downside on the role of the depositary, namely that he is at an unlimited liability. The depositary is only able to end the contract between the FM theoretically. The depositary is only allowed to leave when the fund manager has contracted a new depositary. “Hotel California: you can check out, but you can never leave”. When a fund manager has bad intentions, he won’t contract another depositary. The only thing the depositary can do in this case, is escalate to the Supervisory Board or AFM. This is an example that illustrates that the regulator (AFM) has put a part of the supervision in hands of (a commercial) depositary.

Initiatives to improve transparency of real estate market

The AIFMD aims to bring more transparency to the real estate investment market. That would mean that the investment product – the physical, built object – would become more transparent through this directive. However, I do not foresee the AIFMD to bring more transparency to the real estate market, but rather primarily to the fund industry, of which the real estate funds are a part. The directive will primarily affect the conduct and processes of the actors in the fund value chain.

In my view, short term the real estate (investment- and occupier) markets stand to gain more from initiatives like StiVaD, the 28 recommendations of PTA and RICS certificates. Such initiatives are aimed at assigning grounded and realistic values to buildings, wherein this knowledge is a shared, common good. In such initiatives, the investment -the physical, built object- becomes a more transparent good.

Although the AIFMD does not directly affect the transparency of the built object, this does not mean that it does not affect the transparency of the real estate market. AIFMD also implies requirements to appraisers of assets in the funds, so it also concerns the transparency of the value of the built object, albeit collectively in the value of a fund. And as can be read in the conclusion, AIFMD contributes to the transparency of the real estate investment market since it filters out ‘bad funds’ and possibly improves the image of the sector.

Therefore, AIFMD is able to improve the transparency in the real estate investment market, but I believe that the initiatives are more able to improve the transparency in the occupier-market.

Ratio risk/return

For institutional investors, the cost impact AIFMD causes is unnecessary. Although these costs are not significant, they have to be borne. In the end, these costs will indirectly be paid
by the pension holders of the pension funds. This seems to be in contradiction with what the AFM is aiming for; lower costs for pension funds to relieve the pension holders.

In my opinion, the regulators had to say something about the allocation of the costs. Now this is “left in the middle” and the end result is that the fund managers pass on as much as possible to the investors. Whereby indirectly the pension holders pay the bill in the end.

**Timing**

The incident-driven actions of regulators are often discussed. They try to control the damage, but the damage is already done. It is almost impossible to design a regulatory framework that foresees possible failures in financial markets. Literature accused AIFMD for slowing down the economic recovery on financial markets.

I believe this is not the case. The timing of AIFMD is good, although there is something to say for 10 years earlier. But let's be reasonable.

With an earlier implementation there would have been more resistance. People now are risk averse and knowing the consequences of managers that mess up things, so they are more prepared to make changes. On the other hand, it seems that the regulators were not fully ready when the implementation process began. The regulators were not always able to answer questions while fund managers already had to set up contracts and agreements. So, in my opinion the timing is good but the regulators could have been better prepared.

**Implications in other countries**

A phone call with Jeff Rupp (Internal Affairs, INREV) evoked some developments in the UK, Germany and France. Remarkable is that in Germany by far the least licenses are granted to AIFMs so far. (UK: 401, FR: 289, LUX: 270, GER: 78). Jeff says this is mainly caused by the additional requirements of the German regulators. Also the German way to do things; correct, slow and “punktlich”, is a factor. German AIFMs complain a lot about this. The German regulator also set out additional requirements on the passporting benefit. This causes extra costs and makes it more time consuming to obtain the license. They also have a great focus on disclaimers that state the AIFs are not available for retail investors. It seems that the German regulator adds a new level to the regulatory framework of AIFMD.

The national regulators can determine their own AIFMD registration costs. Differences hereby are noticed. In some countries the AIFMD cost impact is more than in others. In France they added centralizing agents. As result, they have extra costs for supervision. But this extra supervision fee is not transparent, the fee levels seems to be arbitrarily. It would be very inappropriate when they use this as a revenue model.

Jeff emphasizes on the threat of consolidation of the fund managing industry. “When raising the costs of doing business so significant, it will be a great disadvantage for the smaller fund managers”. This results in a concentration of risk management functions. Some say, the best in class (state of the art) remain. But you could also say, less choice for investors and a concentration of risk in a smaller number of players.

On the next page the general conclusions, with the additional lessons, are summarized.
### LARGE INST FM's & INVESTORS
- Impact not significant
- AIFMD unnecessary
- Causes double costs

### SMALL PRIVATE FM's & INVESTORS
- Economies of scale
- Significant impact - more expensive
- Drop out the market

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**REAL ESTATE INVESTMENT MARKET**

#### Transparency benefits
- **Short term**
  - Private investors benefit from more protection (filter out ‘bad funds’)
  - Ultimate investors benefit from comfort & safety check depositary
  - Worthless for institutional fiduciaries
- **Long-term**
  - Whole real estate market can benefit from image improvement & more trust

#### Cost impact effects
- Economies of scale
- AIFMD drop out smaller (younger) firms
- Rescale (private) investment market
- Less choice, more one-sided, more expensive

- Threat capital for social real estate issues
  - Innovation, sustainability, rezoning vacancy
- Threat for EU fund industry

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Cost allocation is point of discussion

*Mainly depends on revenue model FM*.

*Indirectly - shareholder pays*

---

**Figure 78: General conclusions summarized**
5.2.2 Link with the built environment

This research concerns the impact of AIFMD on real estate fund managers and the effects on investors in these funds. Put shortly, it concerns the real estate investment market. The topic is, however, related to the real estate occupier market and therefore it also affects the built environment.

Firstly, transparency in the real estate investment market has (a positive) effect on the real estate occupier market

Transparency in a market concerns complete, reliable information that is available for all actors. In the presence of available, complete and reliable information, an investor is able to make deliberate decisions. In such decisions, the investor is aware of the real risk profile of a certain investment.

When an investor invests in an object, having incomplete or unreliable information can result in a much less favourable investment than anticipated beforehand with the possibility of reaching consequences.

For end-users of a building (tenants) it is important that the owner (investor) is fully aware of the risk profile of the building he owns, so he/she can anticipate such risks. If an investor is forced to raise prices of an object after several months or years to prevent bankruptcy after an ill-informed acquisition, or when the investor cannot make any reinvestments in the object, the end-user is clearly negatively affected by this lack of information during the earlier transaction.

Secondly, changes in the real estate investment market have an effect on the real estate occupier market

A second link with the built environment is that the implementation of the AIFMD will possibly affect the attractiveness of real estate investments in certain sectors. If the available funds for developments, rezoning or investments in current assets change due to these changes in attractiveness, it will have both qualitative as quantitative effects on the physical supply of real estate. This is an effect on the physical built environment and therefore on the occupier market.

The before mentioned arguments show that the investment- and occupier markets are closely interrelated and reactive of each other. Investor behaviour is noticed on the real estate supply in the built environment and a change in user-demand will in turn affect investor decisions. The potential effects of the AIFMD on the investment market can, through the interrelated nature of the two markets, also affect the occupier market and thus the built environment.
5.3 Recommendations

The recommendations are discussed since the duration of this project has proven to be insufficient to cover every aspect of this elaborate project, and some possibly interesting spin-offs arose in the course of this research.

Regulatory costs
Concluded is, that the cost impact for smaller fund managers, in scope of AIFMD, suffer a significant cost impact. It should be interesting to do more case studies on the AIFMD cost impact for these smaller fund managers (with mainly private investors) to gain insights.

Another point of attention is the allocation of AIFMDs’ costs. Estimating the allocation of AIFMD costs in a later stage can possibly give different insights. Is it still the investor who pays the bill or has this shifted more to the fund manager?

Real estate market consequences
It is too soon to determine the real value of (transparency) benefits for the real estate investment market. Studying this in a later stage can enable this more.

Therefore, it also is interesting to gauge investors’ opinions in a later stage. Do they more recognize benefits? Are the opinions by than less diversified?

I also recommend to involve private investors in future studies, since effects of AIFMD are more expected for this investor-segment. The AIFMD impact on the private real estate market can be significant. Are there really less private real estate funds as expected? If so, where do private investors invest in, instead of real estate? The private real estate market is expected to become more expensive, but how much more expensive?

Supervision
Striking statements are made about the regulators in the interviews, AFM as well as DNB. The insufficient capacity, the ignorant answers and too little ability to supervise are mentioned as deficiencies. It would be interesting to determine how effective financial supervisors are. How can supervisors (DNB, AFM) function better?

Another outcome of this research is that there are many organisations that have better checks themselves than the regulators require. Their own mechanisms are proficient to have control and transparency. It should be interesting to define what types of institutes should be regulated and which should not, to avoid unnecessary costs.

Another interesting topic would be how regulation affects capital allocation in the economy, since the restrictions and associated costs can make segments more or less attractive for investors.

Globalization continues
Capital markets are becoming increasingly global and more and more intertwined. This will increase the systemic risk. It should be very interesting to study how we can handle this development on the long-term.
5.4 Reflection

This paragraph provides a reflection on my thesis research by reflecting on the graduation process, the scientific and societal relevance, the methods used and a short reflection on the graduation process with the help of my mentors from the TU Delft, Hans de Jonge and Aart Hordijk and Lisette van Doorn as mentor from my graduation company MPC Capital.

Graduation process

P2 - June 2014
Writing the theoretical framework was no so easy. My knowledge of the real estate fund industry was not very extensive and far-reaching, so I had to conduct an extensive literature review. Another pitfall was the early stage of the AIFMD process. Not much literature is written and especially not much scientific literature. Also the legal jargon was an extra difficulty in reading the available literature.
While writing the theoretical framework, many interfaces were revealed. Most of them were interesting and relevant to study and to describe in the framework. This resulted in a comprehensive literature study and theoretical framework.

P4 - December 2014
Looking back at this period of research, I believe the process of performing a research by myself has taught me a lot. I have spoken with 8 professional, institutional investors whereby very interesting discussions took place. Also the contact with the 4 fund managers and the willingness to share data (although most information is non-public) taught me a lot. By speaking with these parties, I gathered lots of insights and it gave me a sense of the reality of the real estate fund industry, which I am very interested in. But I also encountered some difficulties last months.

Efficiency of impact \rightarrow impact
While setting up the survey documents for the cost impact, it soon became clear it should be very difficult to determine ‘the most efficient way’ to implement AIFMD for each fund manager. Two out of four managers were still processing the implementation and the differences between the organisations are too big to be able to compare them. So, I decided to focus on general conclusions about the impact AIFMD causes for real estate fund managers.

Focus slightly moved
During the empirical research, I observed that the cost impact for the institutional fund managers and investors that participated is not so significant. More impact and effects are expected for the private real estate sector. Therefore, in the end of the research I decided to do an extra interview with a smaller fund manager, managing funds where private investors in participate. This interview gave me useful insights and confirmation about statements and general conclusions I had drawn already.

Fund manager quits
In a very late stage of the empirical research, one fund manager decided not to participate and pulled back. For me this was surprising, since the reasons are (in my eyes) not that reasonable. This fund manager is still processing the implementation and is not prepared to give insights in the business before obtaining the license.
Sensitive information
Working with these parties made it difficult and time-consuming for me to gather the desired information. The data about the costs as well as the interview transcripts contain sensitive data. I have to be very careful with this data. I even had to sign contracts that ensured the organisation I do not publish the received data.

P5 - January 2015
During the P4 presentation some comments were given. In the last month of my graduation process I focused on the missing links, sharpened the discussion part, more explained the data processing of the interviews and optimized the text.

My personal conclusion is that I’m satisfied with my delivered graduation thesis. I believe my graduation process genuinely made me ready to fully pursue my professional career.

Reflection on the methods

Case studies

• Cost impact surveys
  It turned out that the gathered data on the direct-cost impact is difficult to compare. The three fund managers have different revenue models, different AuMs and there is a difference in starting point (conversion of Wft. or complete license application). So, the costs do give me insight in the costs the fund managers make and enable me to draw general conclusions about the impact. However, the ambition to say something useful about the efficiency or make a decent comparison turned out to be difficult.

• Interviews with 8 investors
  I experienced the interviews as professional, fair, relevant and useful. The interviewees were not cautious in their answers (knowing that the data never will be linked to persons). The outcomes of the interviews are of great value and enabled me to give appropriate, grounded answers on the (sub-) research questions.

Scientific & societal relevance

Actors in the real estate fund value chain were, and some still are, struggling with the implementation and the effects of AIFMD. Some studies before the implementation made estimations about the cost impact for fund managers and for investors (INREV and BNY Mellon for example). It is of societal and scientific relevance that the actual cost impact, incurred by AIFMD costs, is revealed. It is also relevant to give insights on the allocation of these costs, since this proved to be a point of discussion. The consequences of the cost impact for smaller fund managers and private investors are of huge societal relevance, since this relates to the social tasks in the real estate sector (sustainability, rezoning, innovation).

An insight in the transparency benefits of AIFMD is of scientific and societal relevance. Transparency in the market is socially desired, so the expected transparency benefits may be of great value for the society. AIFMD pretends to bring more transparency in the markets, so a research that provides insight in the real expected transparency benefits by professionals, adds value to the science.
Put shortly, there is a lack of knowledge on the impact and effects of AIFMD mainly due to the early stage of the implementation. This objective research provides an insight on the impact for fund managers and a view on the effects of the regulation on the real estate investment market with the expected transparency benefits. This seems to be a great addition to the science and of societal relevance.

**Graduation with help of mentors & MPC Capital**

I am happy I’ve made the decision to stay by MPC Capital during my graduation process. It has contributed to my personal understanding, and thus benefited the quality of this research. It also was time-consuming, because I had to do a lot of work that not related to my research.

Lisette van Doorn was of great value during the entire graduation process. The personal guidance and feedback provided useful insights, and in-depth knowledge for this thesis research. Lisette has an extensive professional network and introduced me by the four fund managers.

Every meeting, Hans de Jonge reminded me to keep ‘the helicopter view’ and let me think in the bigger picture. He steered me to think about the system as a whole; the effects of this directive for the market and not only for fund managers and investors. This resulted in a comprehensive discussion paragraph, of which I’m very satisfied.

Especially in the beginning, Aart Hordijk helped me to understand the context and beginning of AIFMD. He gave me access to (email-) discussions between the European Property Foundation (EPF) and European Securities and Markets Authority (ESMA). His valuation-specialism also helped me in the focus on transparency of valuations and the transparency of the real estate (investment) market.
6. GLOSSARY

**Assets under management**
Assets under management are the investment properties, properties under construction, the properties held for sale and cash.

**Capital growth**
Capital growth to the investor is the INREV total return per year, based on the increase in net asset value.

**Direct fund return**
The direct fund return is the percentage of the generated net cash income over the reporting period, divided by the average net asset value of the fund (INREV methodology).

**Direct property return**
Net rental income of investment properties divided by the value of the investment properties, on a monthly basis (IPD methodology).

**Gross Asset Value (GAV)**
The gross asset value of a fund is the gross property value plus the value of any further assets at market value as per the chosen valuation principles.

**Gross initial yield**
Gross initial yield is the passing rent divided by the property value as per year-end.

**Gross lettable area**
Gross lettable area is the total floor area of all investment properties that can be occupied by tenants at the reporting date.

**Gross rental income**
The gross rental income is the total contractual rental income over the reporting period.

**Indirect fund return**
The indirect fund return is the percentage of the valuation movements over the reporting period, divided by the average net asset value of the fund (INREV methodology).

**Income return**
Income return to the investor is the income return per year, based on distributed dividends/capital distributions. The income return per year as a percentage is equal to the distributed dividends/capital distributions, divided by the net asset value at the beginning of the year, plus any capital calls and less any distributed dividends/capital distributions. INREV applies the definition 'dividend yield' which is the amount of income the Fund distributes to investors as a percentage of the current NAV.

**Indirect property return**
Capital increase of investment properties divided by the value of the investment properties, on a monthly basis (IPD methodology).

**Net asset value (NAV)**
The net asset value is equal to the shareholders' equity of the Fund.

INREV NAV is equal to IFRS NAV plus INREV adjustments regarding:
• Revaluation to fair value of property intended for sale
• Revaluation to fair value of fixed rate debt • set-up costs• acquisition expenses

Net asset value per share is the net asset value divided by the number of shares as at the reporting date.

**Net initial yield**
This is the net rental income divided by the property value as per year-end.
**Solvency ratio**
Solvency ratio is equity divided by total assets.

**Total Expense Ratio (TER)**
The total expense ratio reflects the total expenses of the current reporting period (12 months) as a percentage of the weighted average Net Asset Value (NAV) over the period. The TER is backward-looking and includes the management fee, the Fund expenses, the property specific costs and the service charge shortfall.

**Total Return On Equity (ROE)**
Total return on equity is the INREV total return per year (income return plus capital growth).

**Weighted average cost of debt**
The compounded total average rate of the interest rates on each external debt instrument in the Fund weighted by the size of such instruments.
7. LITERATURE LIST

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# 8. APPENDICES

## APPENDIX 1 – Real estate transparency sub-index top 20 (JLL, 2014)

### Performance Measurement

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<td>Germany</td>
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<td>8</td>
<td>Netherlands</td>
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</tr>
<tr>
<td>9</td>
<td>Hungary</td>
<td>1.31</td>
<td>2.21</td>
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<td>10</td>
<td>United States</td>
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<td>11</td>
<td>Switzerland</td>
<td>1.33</td>
<td>1.73</td>
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<tr>
<td>12</td>
<td>Spain</td>
<td>1.38</td>
<td>2.05</td>
</tr>
<tr>
<td>13</td>
<td>Australia</td>
<td>1.40</td>
<td>1.36</td>
</tr>
<tr>
<td>14</td>
<td>South Africa</td>
<td>1.42</td>
<td>2.09</td>
</tr>
<tr>
<td>15</td>
<td>Sweden</td>
<td>1.53</td>
<td>1.79</td>
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<tr>
<td>16</td>
<td>Czech Republic</td>
<td>1.56</td>
<td>2.20</td>
</tr>
<tr>
<td>17</td>
<td>Portugal</td>
<td>1.60</td>
<td>2.18</td>
</tr>
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<td>18</td>
<td>Denmark</td>
<td>1.80</td>
<td>1.98</td>
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<td>19</td>
<td>Norway</td>
<td>1.82</td>
<td>2.09</td>
</tr>
<tr>
<td>20</td>
<td>Slovakia</td>
<td>1.82</td>
<td>2.66</td>
</tr>
</tbody>
</table>
## ANNEXES

### Annex 1. Main provisions in the AIFMD

| Scope (Art. 2.1) | - EU AIFM (Alternative Investment Fund Managers)  
|                 | - Non-EU AIFM if they manage an EU AIF or market a non-EU AIF in the EU |
| Full exemptions (Arts 2.3 and 3.1) | - Holding companies  
|                               | - Authorised managers of occupational retirement schemes [ Directive 2003/41/EC]  
|                               | - Employee saving/participation schemes  
|                               | - Securitisation special purpose entities  
|                               | - AIF whose only investor are undertakings and subsidiaries of the AIFMD |
| Small funds (Art. 3.2) | - AuM < €100m or < €500m if 5 year lock-in  
|                           | - Compulsory registration (before national authority)  
|                           | - No passport but opt-in possible  
|                           | - Simplified reporting  
|                           | - Member states may adopt stricter requirements |
| Authorisation (Arts 5-11) | - Distinction between externally appointed AIFM and internally managed AIF  
|                           | - Compatible with UCITS authorisation (but management of conflicts of interest)  
|                           | - Compatible with portfolio management for pension funds and occupational retirement schemes (under member state derogation)  
|                           | - Compatible with non-core services (under member state derogation)  
|                           | - No limitations in terms of investment strategies |
| Initial capital (Art. 9) | - €300m for internally managed AIFM / €125m for externally managed AIFM  
|                           | - 0.02% of AuM exceeding €250m (MS may allow 50% in the form of guarantees)  
|                           | - Additional own funds or insurance to cover professional liability risk |
| Risk management (Arts 15 and 16) | - Functionally and hierarchically separate (competent authority may provide exemption if not proportional)  
|                                   | - Establish risk profile, liquidity profile (and redemption policy), maximum level of leverage and extent of the right to reuse collateral  
|                                   | - Implement risk management and liquidity management systems  
|                                   | - Carry-out due-diligence processes and stress testing  
|                                   | - Rules on short-selling have moved out of the AIFMD and into horizontal legislation |
| Securitisation (Art. 17) | - Retention requirements of no less than 5% for originator, sponsor and original lender  
|                           | - Delegation to ESMA |
| Conduct of business (Arts 12 - 14) | - Rules similar to UCITS and MiFID on conduct of business and conflicts of interest  
- Binding annex on remuneration (under proportionality) |
| Delegation (Art. 20) | - Notification requirement (justification on objective reasons)  
- May not undermine effective supervision  
- Delegation of portfolio and risk management:  
  - Only to undertakings authorised or registered for asset management  
  - Subject to cooperation arrangements with third-country supervisor  
- No delegation to depositary  
- Sub-delegation subject to same requirements |
| Prime brokerage | - Defined (Art 4.af) and regulated indirectly with regard conflicts of interest (14.3), compatibility with depositary functions (21.4) and disclosure to investors (23)  
- No specific reporting requirements for the prime broker |
| Valuation (Art. 19) | - Either external or functionally separate (internal valuer)  
- National authorities may require verification by external valuer or auditor  
- AIFM retains full liability towards AIF and investors (no contractual discharge possible)  
- External valuer liable for negligent or intentional failure  
- External valuer may not be depositary except if functionally and hierarchically separate  
- External valuer may not sub-delegate |
| Depositary (Art. 21) | - Single external entity  
- UE credit institution, investment firm or other (according to national law) located in the home member state of the AIF  
- For non-EU AIF, it may be a non-EU entity if ESMA deems effective supervision exists in the relevant country  
- Responsible for checking valuation  
- Quasi-strict liability + reversal of the burden of proof  
- Delegation (and sub-delegation) possible under strict conditions  
- Contractual discharge of liability possible with regard to sub-custodians  
- Reporting upon request to supervisors |
| Passport (Arts 31 - 33) | - Passport granted to EU AIF with respect to marketing to professional investors  
- Passport granted to EU AIFM with respect to their management services  
- Member states may allow marketing of AIFs to retail investors (Art 43) |
| Third country rules (Arts 34 - 42) | - See Annex 2 |
| Disclosure to investors (Arts 22 and 23) | - Before investing in the AIF: investment strategy, leverage, risk and liquidity management, valuation, conflicts of interest, fees and expenses, depositary liability...  
- Periodically: risk profile, liquidity and leverage  
- Annual report |
### Reporting to supervisors (Art. 24)
- Main markets, instruments, exposures and concentrations (per manager and fund)
- Special arrangements for illiquid assets
- Actual risk profile and management system
- Results of stress tests
- If leverage is used on a substantial basis: amount of leverage arising from borrowing of cash or securities and embedded in derivatives (and extent of re-use of AIF assets under leveraging agreements)

### Supervisory authorities (Arts 45 - 55)
- Home member state of the AIFM responsible for prudential supervision
- Host member state of the AIFM responsible for conduct of business and conflicts of interest
- Wide powers of inspection and intervention
- Power to impose limits on leverage or other restrictions to limit systemic risk or risks of disorderly markets
- Powers of ESMA in line with Regulation 1095/2010 (banning of products, restrictions on management)
- Enhanced co-operation procedures
APPENDIX 3 – Financial instruments versus other assets (Jean Michel Loehr, 2013)

Financial instruments that can be held in custody are those that can be registered in accounts opened in the depositary’s books (in the name of the AIF) and physical instruments delivered to the depositary, as well as instruments that are capable of being registered or held in an account directly or indirectly in the name of the depositary. These will include transferable securities, money markets instruments, units of collective investment undertakings and financial instruments which are provided as collateral to a third party or are provided by a third party for the benefit of the AIF as long as they are owned by the AIF or the AIFM acting on behalf of the AIF.

Other assets are assets which do not qualify as financial instruments that can be held in custody under AIFMD or could not be physically delivered to the depositary or are those financial instruments that in accordance with applicable national law are only registered in the name of the AIF with the issuer or its agent. These will include investments in non-listed companies by private equity and venture capital funds, interests in partnerships, cash deposits but also financial contracts like derivatives.

The above distinction is important as it will directly influence the safekeeping duties and the depositary’s obligations in case of loss.

APPENDIX 4 – Liabilities of the depositary (Jean Michel Loehr, 2013)

In general, depositary liability will be triggered in case of a “loss” of financial instruments.

a) Loss of “other assets”
   - Depositary liable to the AIF and its investors only if it is negligent or intentionally fails to properly perform its obligations under the Directive.
   - Loss of “financial instrument held in custody” (by the depositary itself or a sub-custodian)
     - Depository must return a financial instrument of the identical type or the corresponding amount, without undue delay unless it can demonstrate that the loss was a result of an external event beyond reasonable control, the consequences of which were unavoidable despite all reasonable efforts to the contrary
   - b) Definition of “loss”
     - A loss must be definite and irremediable. Three types of situations where financial instruments may be considered irremediably lost have been identified:
       - where the financial instruments no longer exist or never existed (e.g. in case of fraud)
       - where the financial instruments exist but the AIF has lost its right of ownership over them
       - where the AIF still holds the ownership right but cannot dispose of the financial instruments
     - The assessment of the loss must follow a documented process available to competent authorities
     - In the event of insolvency of a sub-custodian, the financial instruments belonging to the AIF should not be deemed lost until it appears clearly that they will not be recovered. This might happen during or at the end of the insolvency proceedings.
     - This loss should be distinguished from an “investment loss” for investors resulting from a decrease in the value of assets and which is the consequence of an investment decision
   - b) Definition of “external event”
     - Event deemed “external” if it did not occur as a result of an act or omission of the depositary or its sub-custodian. Operational failure or fraud at the level of appointed third parties or sub-custodians selected by the depositary would qualify as “internal to the depositary” for the purpose of determining the liability standard.
   - b) Definition of “beyond reasonable control”
     - Natural events or acts of public authorities including war, riots, governmental body decree.
   - b) Definition of “reasonable efforts”
     - Depositary and its delegates have to:
       - maintain structures and expertise adequate to identify and monitor external events that may result in a loss;
       - assess on an ongoing basis the significance of risk of loss;
     - In case of loss and only in that case, the cumulative fulfillment of those three conditions (b.a—b.d.) has to be proven by the depositary in order to be discharged of liability. In other words there is a “reversed burden of proof.” Failing this, the depositary shall return a financial instrument of identical type or the corresponding amount to the AIF without undue delay.
APPENDIX 5 – Cost impact survey for fund managers

COST IMPACT SURVEY

DEEL 1: Directe kosten impact AIFMD

De AIFMD kostenposten zijn onderverdeeld tussen het fonds (return) en de fonds manager (marge). Wat zijn de directe (out of pocket) kosten van de AIFMD voor het fonds en hoe zijn deze gealloceerd?

Gevraagd: Schatting van de kostenimpact van AIFMD in basispunten op de return of marge van 2014 per kostenpost.

<table>
<thead>
<tr>
<th>Set-up costs</th>
<th>Fund (return)</th>
<th>Fund manager (marge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>License application &amp; authorization AFM</td>
<td></td>
<td></td>
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<tr>
<td>Consulting costs</td>
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<td></td>
</tr>
<tr>
<td>- legal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- accounting</td>
<td></td>
<td></td>
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<tr>
<td>- administrative organization / business process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- other, e.g. project management etc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection and contracting depositary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection and contracting external valuer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selection and contracting accountant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (software for example)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual costs</th>
<th>Fund (return)</th>
<th>Fund manager (marge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual AFM registration costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depositary</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External valuer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accountant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (software for example)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Om uitspraken te kunnen doen over de directe kosten impact verneem ik ook graag de volgende informatie over het fonds:

Total Expense Ratio of fund 2013:

Geschatte Total Expense Ratio 2014:

AuM of fund 2013:

AuM of fund 2014:

Return of the fund 2013:

Geschatte return of the fund 2014:

Marge of fund manager:

Wat denkt u zelf dat de impact zal zijn?

DEEL 2: Indirecte kosten impact AIFMD

Bij het bepalen van de indirecte kosten impact van de AIFMD wordt er gekeken naar de verandering in de organisatie structuur voor en na de implementatie met het aantal fte’s. Ook wordt er gekeken naar links tussen de organisatiestructuur en de directe kostenposten.

Gevraagd: Wat is er veranderd in de organisatie VOOR en NA implementatie van AIFMD?

Kunt u dit zo mogelijk illustreren? Bijvoorbeeld met aantal fte’s per afdeling/functies (organisatie structuur van het fonds en de fondsmanager).

De focus ligt vooral op risk management (uitvoering en management), compliance, internal audit en waardering.

Als er vragen zijn hoor ik die graag.

Lieske van Pelt
lieskevanpelt@gmail.com
+316-43136678
APPENDIX 6 – Interview guide for the interviews with the investors

INTERVIEWS MET BELEGGERS

Interview Guide

<table>
<thead>
<tr>
<th>INFORMATIE</th>
</tr>
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<tbody>
<tr>
<td>Naam:……………………………………………………</td>
</tr>
<tr>
<td>Bedrijf:……………………………………………………</td>
</tr>
<tr>
<td>Positie:……………………………………………………</td>
</tr>
<tr>
<td>Verantwoordelijkheden:………………………………</td>
</tr>
<tr>
<td>Locatie:……………………………………………………</td>
</tr>
<tr>
<td>Datum:……………………………………………………</td>
</tr>
</tbody>
</table>

| INTRO QUESTIONS |
|-----------------|-----------------|-----------------|
| **Main questions** | **Additional questions** | **Clarifying questions** |
| Bent u op de hoogte van AIFMD? | Tot in welk detail bent u op de hoogte? | |

*In het interview worden vragen gesteld over de volgende onderwerpen, gerelateerd aan AIFMD:*
- transparantie
- beleggers-gedrag
- *ratio risk/rendement*
- timing

**Definitie transparantie**
"Mate waarin de informatievoorziening van fund manager naar belegger toereikend is"
<table>
<thead>
<tr>
<th>Main questions</th>
<th>Additional questions</th>
<th>Clarifying questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wat is uw mening over de informatievoorziening m.b.t. dit fonds waarin u belegt door de fund managers?</td>
<td>Heeft u al effecten opgemerkt in de informatievoorziening m.b.t. de implementatie van AIFMD?</td>
<td>Kunt u hier wat verder op ingaan?</td>
</tr>
<tr>
<td></td>
<td>Zou u vaker, meer of andere informatie willen krijgen van het fonds?</td>
<td>Kunt u me nog iets anders vertellen over dit onderwerp?</td>
</tr>
<tr>
<td></td>
<td>Hoe zou de transparantie kunnen verbeteren?</td>
<td>Kunt u misschien een voorbeeld geven?</td>
</tr>
<tr>
<td>In hoeverre denkt u dat de bedrijfsvoering van de fund manager met de aanwezige checks en balances verbetert met AIFMD?</td>
<td>Heeft u al effecten opgemerkt op het fonds m.b.t. de implementatie van AIFMD? - risk management - rapportages (inh&amp;freq) - compliance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Verwacht u iets (op korte/lange termijn)? Zo ja, wat dan?</td>
<td></td>
</tr>
<tr>
<td>Denkt u dat AIFMD een effect heeft op de asset-management niveau?</td>
<td>Zo ja, denkt u dat deze initiatieven de vastgoedmarkt transparanter maken?</td>
<td></td>
</tr>
<tr>
<td>Bent u bekend met initiatieven als PTA en StiVaD?</td>
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</table>
**INVESTEERDERS GEDRAG**

<table>
<thead>
<tr>
<th>Main questions</th>
<th>Additional questions</th>
<th>Clarifying questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>In hoeverre speelt AIFMD compliance van de fund manager een rol bij de due diligence van een fonds als potentieel beleggingsmogelijkheid?</td>
<td>Wat zijn daarvoor de belangrijkste redenen?</td>
<td></td>
</tr>
<tr>
<td>EN</td>
<td>Waarom?</td>
<td></td>
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<tr>
<td>Wordt vastgoed als belegging onder de AIFMD minder of meer aantrekkelijk?</td>
<td></td>
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<tr>
<td>EN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wie profiteert er (het meest) van de AIFMD volgens u?</td>
<td>Denkt u dat de risico’s van een investering duidelijker worden met de AIFMD?</td>
<td></td>
</tr>
<tr>
<td>EN</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denkt u dat beleggers beter overwogen investeringsbeslissingen kunnen nemen onder de AIFMD?</td>
<td>Kunt u hier wat verder op ingaan?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kunt u me nog iets anders vertellen over dit onderwerp?</td>
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<td></td>
<td>Kunt u misschien een voorbeeld geven?</td>
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<tr>
<td>Main questions</td>
<td>Additional questions</td>
<td>Clarifying questions</td>
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<tr>
<td>--------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------</td>
<td>-------------------------------------------------------</td>
</tr>
<tr>
<td>Wie zou de rekening van AIFMD idealiter moeten betalen?</td>
<td>Wie betaalt de rekening van AIFMD in werkelijkheid?</td>
<td>Kunt u hier wat verder op ingaan?</td>
</tr>
<tr>
<td>Wegen de kosten op tegen de baten van de AIFMD?</td>
<td></td>
<td>Kunt u me nog iets anders vertellen over dit onderwerp?</td>
</tr>
<tr>
<td>Wat vindt u van de invoering van de AIFMD voor dit fonds?</td>
<td></td>
<td>Kunt u misschien een voorbeeld geven?</td>
</tr>
</tbody>
</table>
## JUISTE REACTIE EN TIMING

<table>
<thead>
<tr>
<th>Main questions</th>
<th>Additional questions</th>
<th>Clarifying questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vindt u de regelgeving, die gefocust is op de fund managers van AIFs, een juiste reactie van de Europese Commissie?</td>
<td>Zo niet, wat zou dan een betere actie geweest zijn om een situatie als 2008 te voorkomen?</td>
<td>Kunt u hier wat verder op ingaan?</td>
</tr>
<tr>
<td></td>
<td>Zo ja, waarom?</td>
<td>Kunt u me nog iets anders vertellen over dit onderwerp?</td>
</tr>
<tr>
<td></td>
<td>Zo niet, is er een juiste timing?</td>
<td>Kunt u misschien een voorbeeld geven?</td>
</tr>
<tr>
<td></td>
<td>Zo ja, waarom?</td>
<td></td>
</tr>
<tr>
<td>Is de timing van de regelgeving naar u mening goed?</td>
<td></td>
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</tr>
<tr>
<td><strong>CLOSING OF INTERVIEW</strong></td>
<td></td>
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</tr>
<tr>
<td>Is er iets, gerelateerd aan dit onderwerp, wat we niet besproken hebben?</td>
<td></td>
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<tr>
<td></td>
<td>Zo niet, wat zou dan een betere actie geweest zijn om een situatie als 2008 te voorkomen?</td>
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<tr>
<td></td>
<td>Zo ja, waarom?</td>
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<td></td>
<td>Zo niet, is er een juiste timing?</td>
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<tr>
<td></td>
<td>Zo ja, waarom?</td>
<td></td>
</tr>
<tr>
<td>Heeft u nog iets toe te voegen?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>