Fund Termination Study
2015

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. Our aim is to improve the accessibility of non-listed real estate vehicles for institutional investors by promoting greater transparency, accessibility, professionalism and standards of best practice.

As a pan European body, INREV represents an excellent platform for the sharing and dissemination of knowledge on the non-listed real estate industry.

INREV
Strawinskylaan 631
1077 XX Amsterdam, The Netherlands
+31 (0)20 799 39 76 | research@inrev.org | www.inrev.org

Contents

Executive summary

- Liquidation continues to be the preferred form of termination
- Performance of funds in extension are higher than funds liquidating
- Core funds prefer liquidation while opportunity funds prefer extension

For the second year running liquidation has been cited as the preferred form of termination for the majority of funds. Liquating funds underperformed funds in extension in 2014, delivering returns of 4.1% compared with 18.7%. Over the five year period to end 2014, funds in liquidation delivered an average return of -2.3% while funds in extension delivered 4.1% on average.

Liquidation is the most considered option among fund managers of core funds before making a decision when it comes to a fund's termination strategy, with other strategies such as an IPO, sale of fund or merger being the second most considered termination option. While opportunity funds favour extension, fund managers of value added funds consider both extensions or another strategy which can include an IPO, sale of fund or merger in equal measure before making a final decision.

‘Liquidation is the most considered termination option for core funds’

Meanwhile for those that have already made a decision when it comes to a termination strategy, liquidation is by far the most preferred option, especially so for core funds. Meanwhile the most selected strategy chosen by opportunity funds is extension, followed by liquidation. Other strategies such as an IPO, sale or merger have only been selected for value added and opportunity funds, while rollovers were chosen only for core and value added funds.

A decision on a termination strategy has been made for the majority, 82.4%, of funds due to terminate in 2015, with only 17.6% yet to make a decision before the year ends. For funds with an original planned termination year of 2016 a decision on whether to terminate or not has been made on 80.0% of these; meanwhile just over half of the funds due to terminate in 2017 have had their termination strategy determined.

‘Extension is the most selected termination option for opportunity funds’

The main drivers affecting the decision on whether to liquidate or extend are current market circumstances and the quality of the underlying portfolio. Next are the investors' liquidity requirements followed by the terms set for termination options in the fund documentation.

Section 1

Introduction

Introduction

This is the tenth INREV Fund Termination Study, the latest in a series of reports published to examine the options fund managers consider as the termination date of their fund approaches. The report also looks at trends in continuation strategies, and on how current market conditions impact the decision making process. This annual study was launched following evidence that terminations of closed end funds had reached a peak between 2007 and 2010.

Consistent with last year's methodology the analysis is carried out for funds that are due to terminate in the coming two years and for vehicles where the current status is showing an original scheduled termination date between the years 2008 and 2018.

Therefore this study explores the termination decisions of 300 closed end funds from across the market with a combined gross asset value (GAV) of €25.5 billion. As cited above these vehicles had an original termination year between 2008 and 2018. The last section of the report presents the survey results of a smaller sample of 57 funds due to terminate in the next two years, exploring factors impacting the decision making process as well as the timing of their decisions.

INREV would like to thank fund managers for participating in the 2015 fund termination survey.

Section 2

Market overview

Market overview

The impact of performance on termination decisions

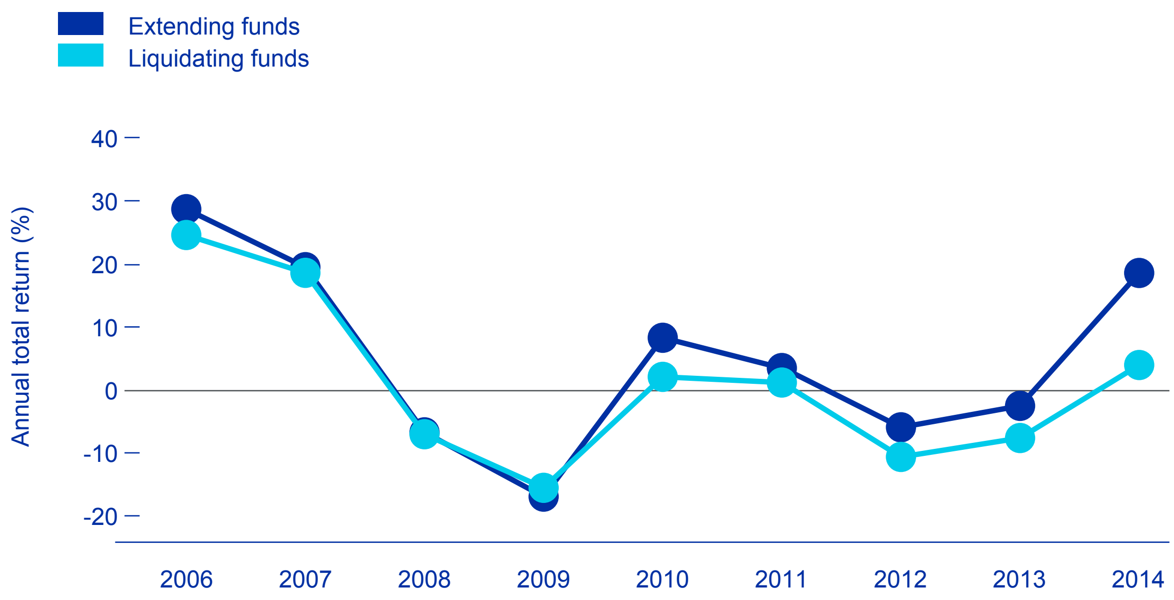
INREV performance data indicates that total returns for those funds in the extension phase or opting to extend are higher than returns for those funds that are opting to liquidate. On a 9-year annualised performance basis, funds that have opted to extend achieved an average total return of 4.3% per annum while funds that have chosen to liquidate delivered total returns of 0.4% per annum on average.

In order to calculate an annualised performance figure INREV requires the participation of at least three funds from three different funds managers. Therefore it was not possible to calculate performance for funds in liquidation prior to 2006; hence returns are only displayed from 2006 onwards.

For the five years to end 2014 the difference in returns are more extreme: funds that have opted to liquidate achieved total returns of -2.3% per annum on average over this period, while those that have opted to extend delivered average returns of 4.1% per annum.

'Funds in liquidation underperform funds in extension'

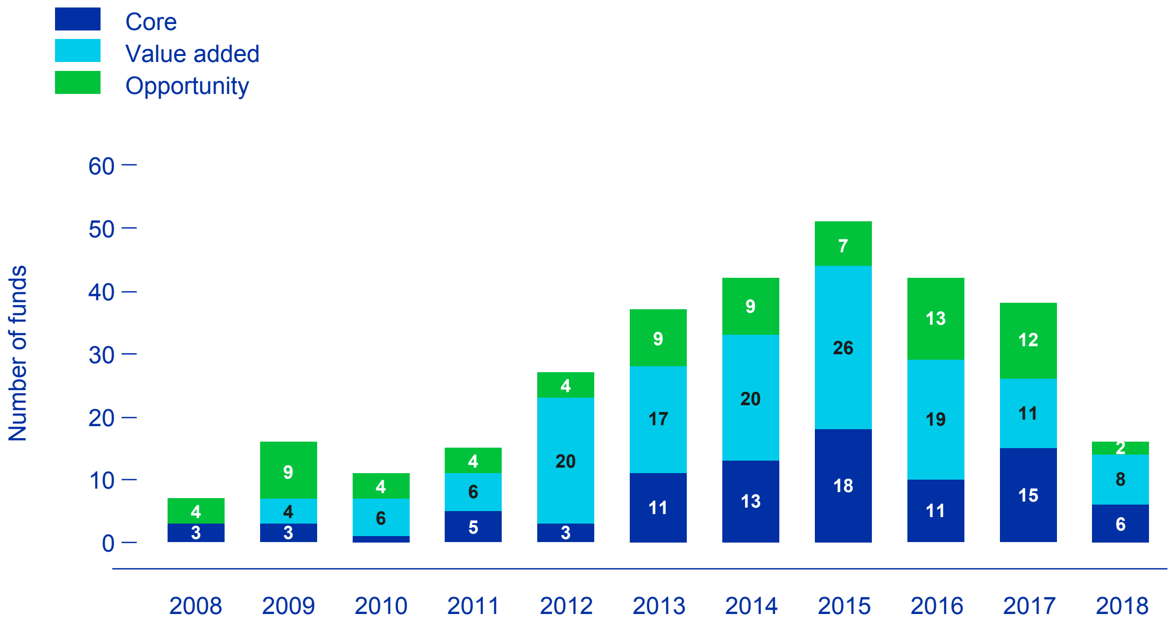
Figure 1: Performance by liquidation status



Funds terminating between 2008 and 2018 by style

Of the 300 closed end funds with an original termination year between 2008 and 2018, the majority are value added funds representing 45.7% of the sample, 31.7% are core funds while 22.7% are opportunity funds. This distribution differs slightly from last year's where value added funds represented just over half of the market.

Figure 2: Number of funds terminating between 2008 - 2018 by style

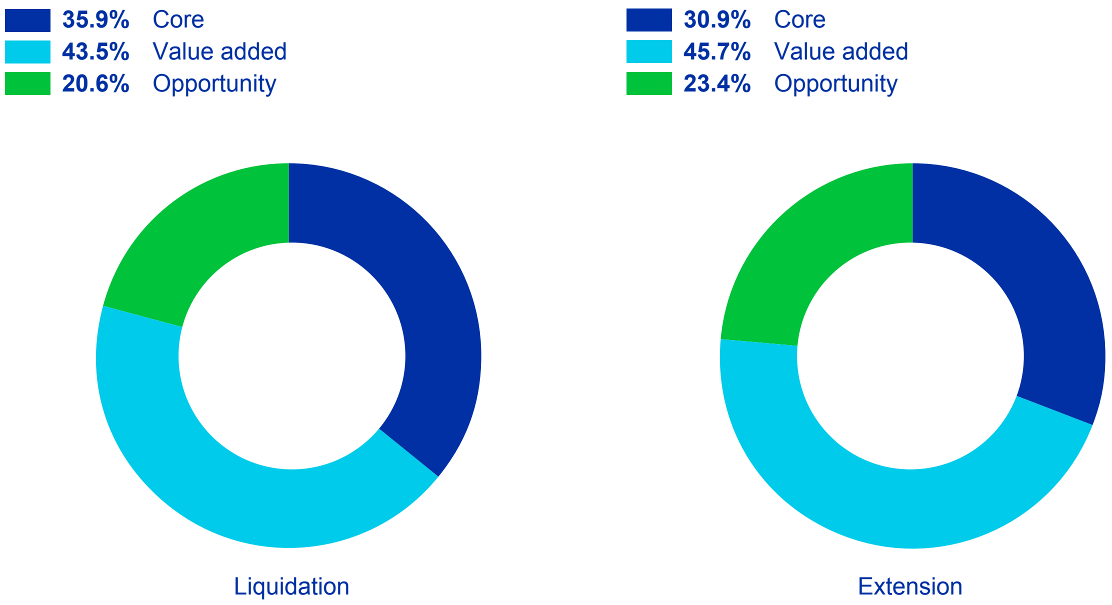


The profile of funds in liquidation follow a similar profile, where 43.5% are value added, 35.9% are core and 20.6% are opportunity funds. Although value added funds comprise the largest share of funds liquidating their share has been decreasing since the 2013 study where 72% of the funds were value added and this had reduced to 62% in 2014.

Meanwhile, more opportunity funds have chosen to liquidate their funds, it is also true that the number of opportunity funds in the overall sample has also increased in the recent years. Although the number of opportunity funds in the universe has increased it remains the smallest portion of funds in the sample overall.

A similar style composition can also be seen across funds in extension, where value added funds account for the largest share of funds extending, 45.7%. Core funds account for 30.9% and opportunity funds for 23.4%.

Figure 3: Funds in liquidation and extension by style



Country and sector allocations of funds terminating

In terms of country allocation, 38.9% of funds terminating between 2008 to 2018 are funds with an allocation to the United Kingdom (UK). Funds allocated in Italy are next with their share being 14.4%, which is an increase to last year's study. Funds allocated in France, Germany and Portugal have similar shares of approximately 11% each of all the funds terminating in the sample period. In last year's analysis, funds allocated in Spain represented around 5% of the sample but this year they represent less than 1% indicating that most of these funds have been terminated.

Much like in last year's study, funds with a retail, office and industrial/logistic sector allocation make up a large share, 77.1%, of the termination sample. However, there are some notable changes to previous years, for example, funds investing in residential property have increased their visibility and now account for 9.3% of funds terminating.

While funds investing in retail were less than half, 49%, of last year's sample, their share has been reduced to 36.4% this year. On the contrary, funds investing in industrial/logistics have increased their share from around 13% to 16.4%, and the same is the case for funds investing in hotels and in the health care sector. Meanwhile funds investing in office have not lost much of their market share as they represented around a quarter of the sample previously, which is similar this year at 24.3%.

Figure 4: Country allocation of funds terminating

- **38.9%** UK
- **14.4%** Italy
- **11.4%** Germany
- **10.8%** Portugal
- **9.6%** France
- **3.6%** Finland
- **11.4%** Other

Figure 5: Sector allocation of funds terminating

- **36.4%** Retail
- **24.3%** Office
- **16.4%** Industrial/Logistics
- **9.3%** Residential
- **5.0%** Hotel
- **3.6%** Health Care
- **5.0%** Other

Country and sector allocations of funds that are in the liquidation process or will liquidate

As observed in the overall sample of funds terminating, funds with a UK country allocation represent the largest share of funds liquidating making up 47.9%. Funds allocated in Italy follow with 14.1% and funds allocated in Germany and Portugal with 8.5% each. The reduced shares of funds allocated in Germany, France and Norway are related to the liquidations taken place since the 2014 study of this report.

Funds invested in the retail sector represent the largest share of funds due to liquidate, 37.0%. They are followed by funds invested in offices, which make up 21.7% of the liquidating sample. Funds allocated to residential and industrial/logistics follow next, each with 17.4% share of the overall sample of funds due to liquidate. While the share of funds invested in the industrial/logistics sector is broadly in line with the previous year, those that have a residential strategy have significantly increased its share from around 4% previously.

Figure 6: Country allocation of funds that are in the liquidation process or will liquidate

47.9% UK
14.1% Italy
8.5% Germany
8.5% Portugal
5.6% France
5.6% Russia
9.9% Other

Figure 7: Sector allocation of funds that are in the liquidation process or will liquidate

37.0% Retail
21.7% Office
17.4% Residential
17.4% Industrial/Logistics
6.5% Other

Country and sector allocations of funds that are in the extension or will extend

The UK represent the largest share of funds that are in extension or will extend with 40.1% - this is twice as large as its share observed in 2014. Funds investing in Italy were not among the top five shares in 2014 but this year they represent 15.6% of all funds extending or expecting to fo so. Althouigh funds investing in Spain and Belgium each had around 7% of the 2014 sample of funds extending, this year they apear to have already terminated.

Funds investing in retail, office and industrial real estate remain as the majority of funds in extension or that will extend. Funds targeting residential real estate and hotels make up a larger share of this year's sample leaving health care real estate and leisure to fall into the category 'other'.

Figure 8: Country allocations of funds that are in extension or will extend

40.1% UK
15.6% Italy
10.2% Portugal
10.2% Germany
8.8% France
3.4% Finland
2.7% Russia
8.8% Other

Figure 9: Sector allocations of funds that are in extension or will extend

39.0% Retail
22.8% Office
17.9% Industrial/Logistics
6.5% Residential
5.7% Hotel
8.1% Other

Section 3

Fund termination survey

Fund termination survey

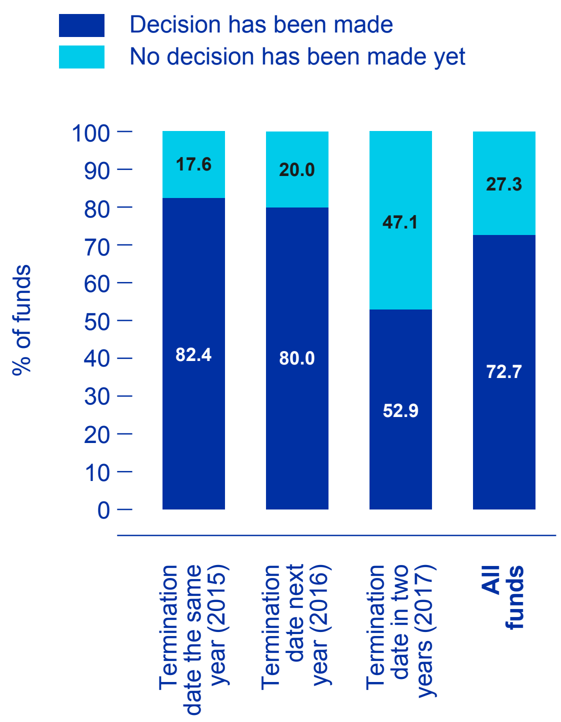
This year's annual fund termination survey is based on data collected from 57 funds. The survey explores the choices considered for termination as well as a range of factors affecting the decision making process, the timing of the decisions and how specific continuation strategies are likely to affect the structure of the funds themselves.

Timing of decision making

Overall the responses show that the majority of fund managers have made a decision as to what termination strategy to follow for their funds.

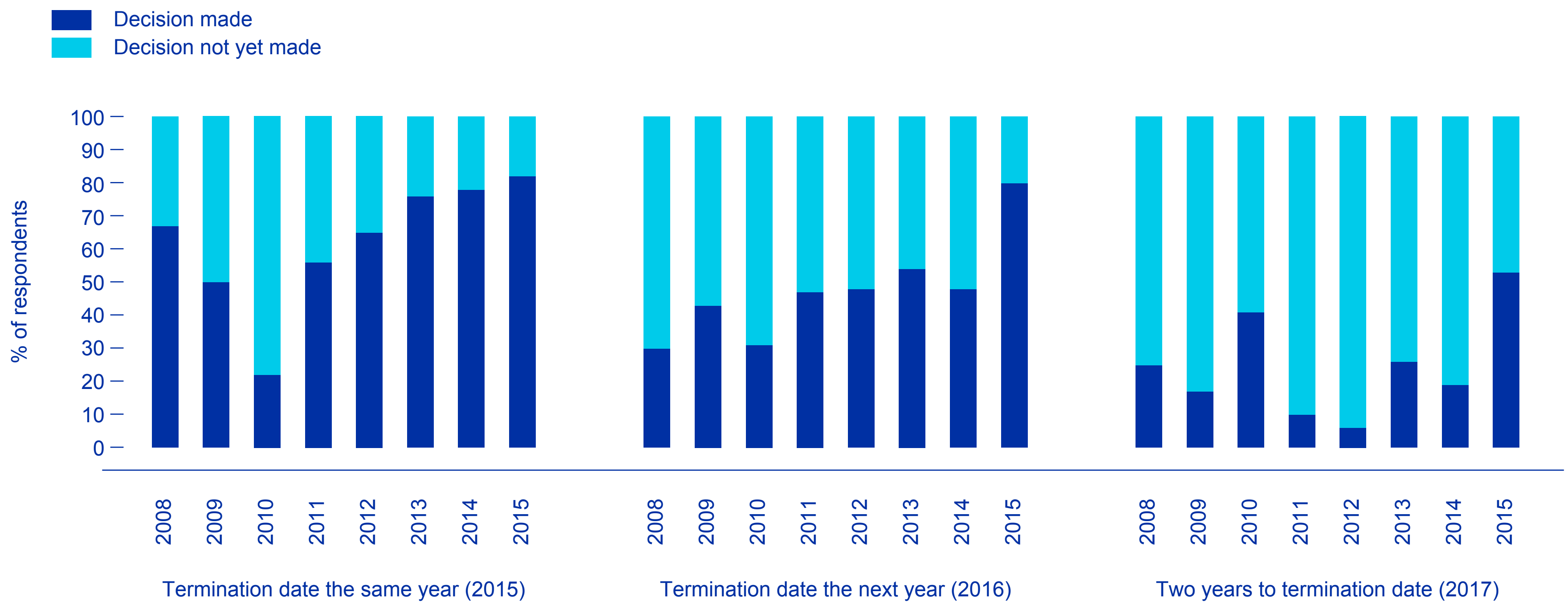
This is especially true for funds terminating in 2015, where a decision has been made on 82.4% of these funds. It is a similar story for 2016 where a termination strategy has been determined for 80.0% of the funds. Meanwhile a decision has been made on fewer funds, 52.9%, with a termination year of 2017. Therefore overall, for the following three years a termination decision has been made on 72.7% of the funds, compared with 27.3% where a decision has not been made.

Figure 10: Timing of decision making



> 'A termination strategy has been decided for just over half of funds due to terminate in 2017'

Figure 11: Timing of decision making over the period 2008 to 2015



Termination options under consideration prior to making a decision

Fund managers were asked to select the termination strategies considered while planning for termination of their fund. In this instance they were able to select more than one option under consideration.

Liquidation is the most considered option of termination as indicated by 20.0% of fund managers overall. Extension and other strategies such as an IPO, sale or merger follow next with 16.4% each, while rollover is considered by 9.1% of fund managers.

There are notable differences across different fund styles. For core funds liquidation is the most considered termination option with 42.1% of the managers indicating so. Similarly 40% of fund managers managing opportunistic funds are considering extensions. Value added fund managers are divided between liquidation and extension.

‘Liquidation is the most considered termination strategy before making a final decision’

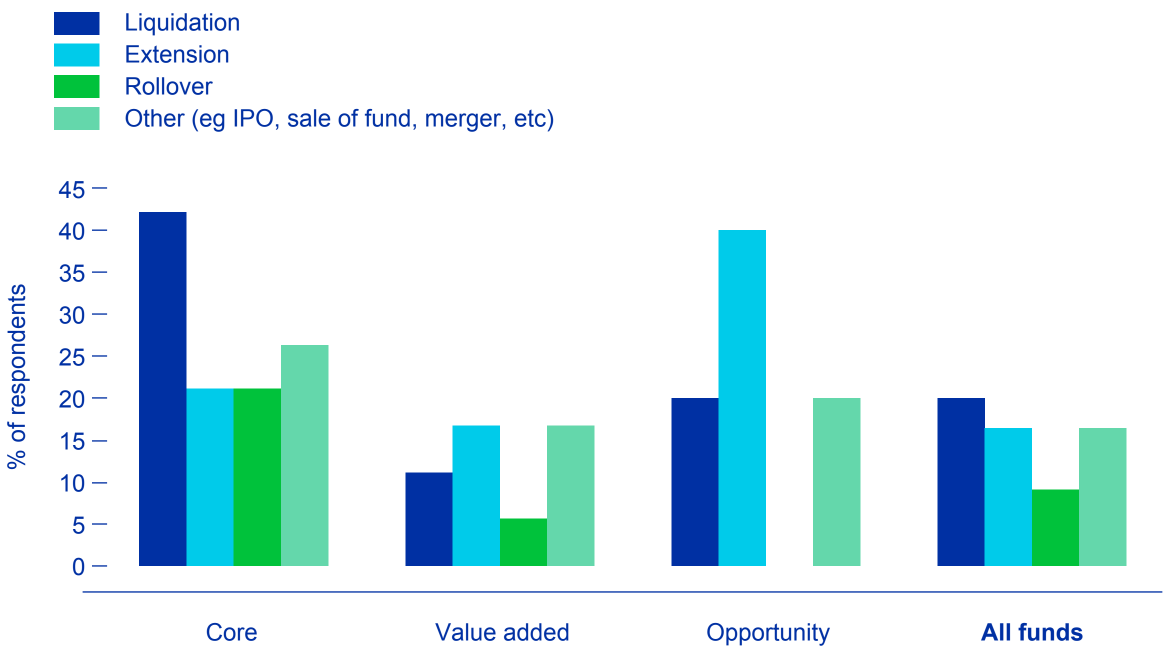
Rollovers seem to be mostly considered for core funds as 21.1% of fund managers in this style expressed so, as did 5.6% of managers of value added funds, though there is no indication of fund managers in opportunistic funds considering this strategy. Other strategies like an IPO, sale or merger are more frequently considered by managers of core and value added funds.

Although the order of preference for all funds in general terms is comparable to that observed in last year’s study, almost all fund styles are associated with different preferences this year with the exception of core funds, where liquidation remains the most considered termination option.

The largest portion of fund managers of core funds were considering liquidation in 2014 this was 77% of respondents compared with 42.1% of respondents in 2015. Also in 2014 extension was the second most preferred termination option for core funds but, in this year’s study extensions as well as rollovers were preferred by a smaller portion of respondents, 21.1%.

Opportunity fund managers preference for extension was also observed in the 2014 survey. Also in 2014, rollovers were not being taken as an option for funds in this style. Although the majority of fund managers of value added funds were considering liquidation in 2014, in 2015 the majority are considering extensions or other strategies.

Figure 12: Termination options under consideration



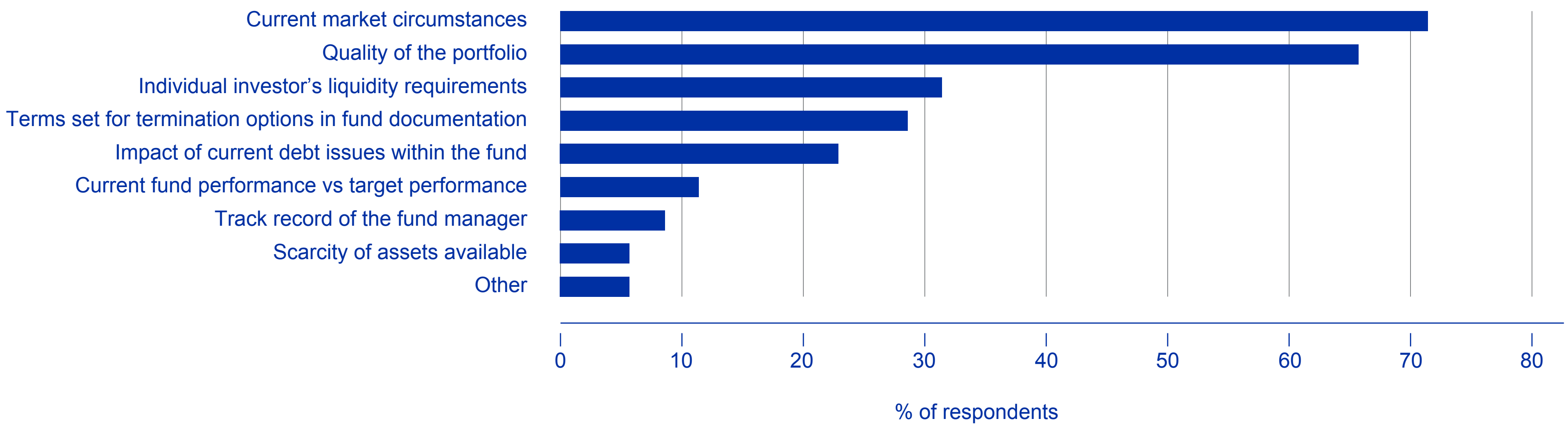
Issues affecting termination decisions

The factors affecting termination decisions were also explored, and here fund managers were able to indicate one or more reasons that drive their termination strategy.

In this context, 71.4% of respondents stated that current market circumstances remain the dominant factor in determining fund termination strategies. This was in line with the results in the last four annual studies. Also, as it was in the 2014 results, the quality of the portfolio was the second most mentioned driver affecting termination decisions. Furthermore, an individual investor's liquidity requirements became the third most predominant driver.

> 'Current market conditions is the biggest driver of a termination strategy'

Figure 13: Issues affecting termination decisions



Preferred termination strategies

Fund managers were asked what termination strategy was finally chosen or most likely to be chosen. Only fund managers which had made a choice were willing to share their decision.

Therefore, of those that have made a decision, 47.4% consider liquidation as the preferred termination strategy. This was followed by extensions, which was indicated by 28.9% of these respondents. Other strategies such as IPOs, sale of funds and mergers, were preferred over rollovers with 13.2% and 10.5% choosing them respectively.

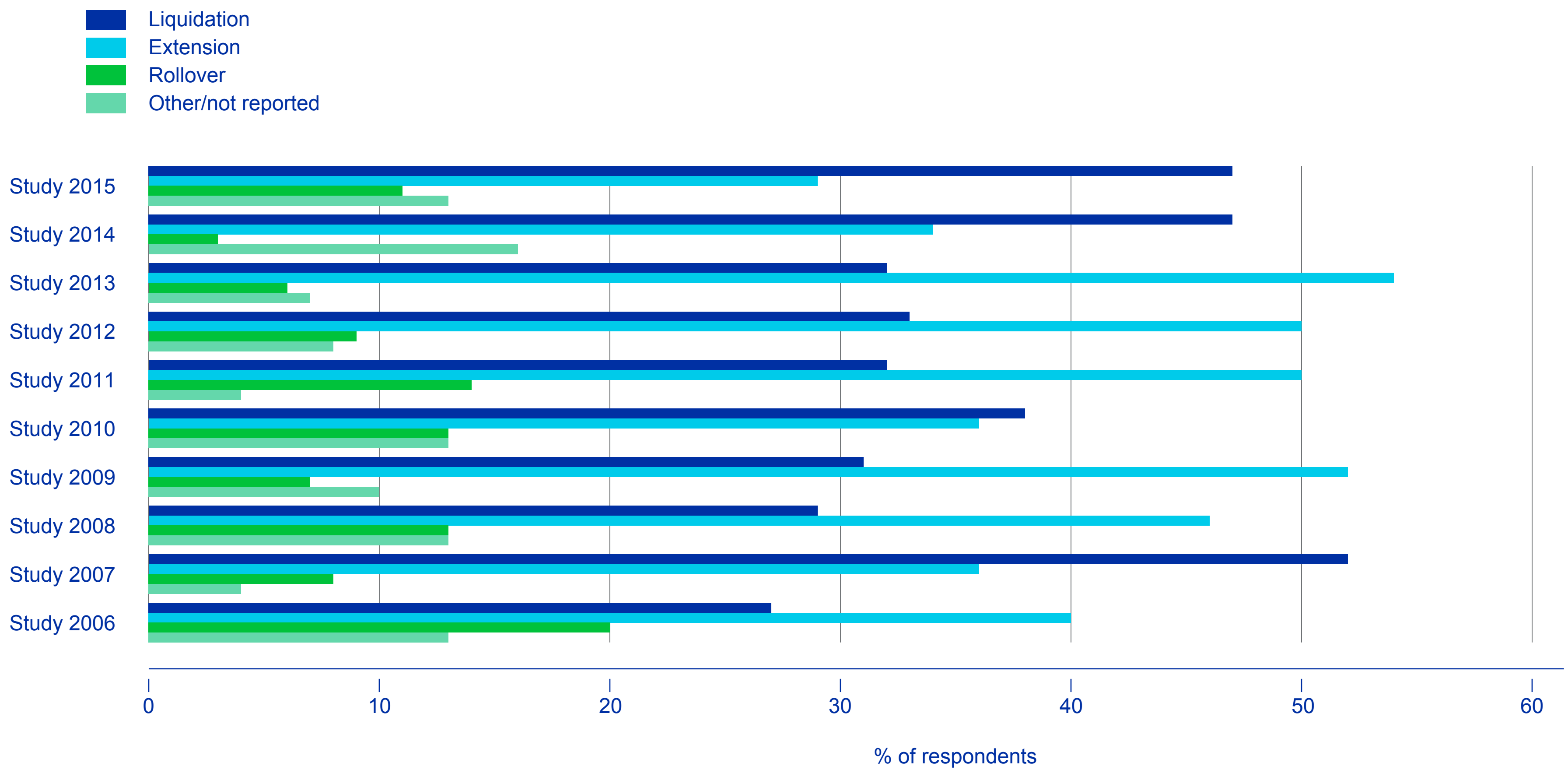
Figure 14: Termination option chosen or most likely to be chosen

47.4% Liquidation
28.9% Extension
10.5% Rollover
13.2% Other (eg IPO, sale of fund, merger, etc)

‘For the second year running liquidation is the most preferred form of termination’

For the first time in ten years liquidation is the most likely chosen termination strategy for two consecutive years. Only in 2007 and 2010 was liquidation the most likely strategy to be chosen while most fund managers chose or were most likely to choose extensions in the remaining six years. These two strategies have dominated the last decade as less than 20% of fund managers have consistently chosen or mostly likely to have chosen strategies such as rollovers or other strategies like IPOs, sales or mergers.

Figure 15: Termination option chosen or most likely to be chosen over 2006 - 2015



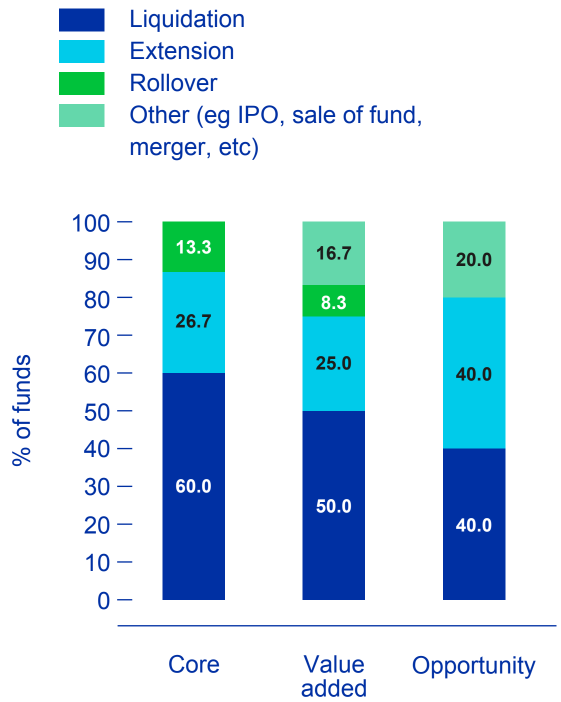
When looking across the funds' investment styles there are some distinct differences in the termination strategies chosen.

While liquidation is the preferred form of termination for all types of funds this can be seen more prominently in core funds, where this is the chosen strategy for 60.0% of the funds, compared with 50.0% for value added and 40.0% for opportunity.

A larger proportion of opportunity funds have also indicated extension as a termination strategy, 40.0%, compared with only 26.7% for value added and 25.0% for core.

Meanwhile only core and value added funds have opted for rollovers, and other strategies such as an IPO, sale or merger is considered by value added and opportunity funds.

Figure 16: Termination option chosen or most likely to be chosen by style



'Rollovers considered for core and value added funds only'

Structural changes to extended funds

Extension may result in structural or strategic changes but almost 63% of funds that have been extended have not gone through any structural change. This is related to the flexibility of the original structure.

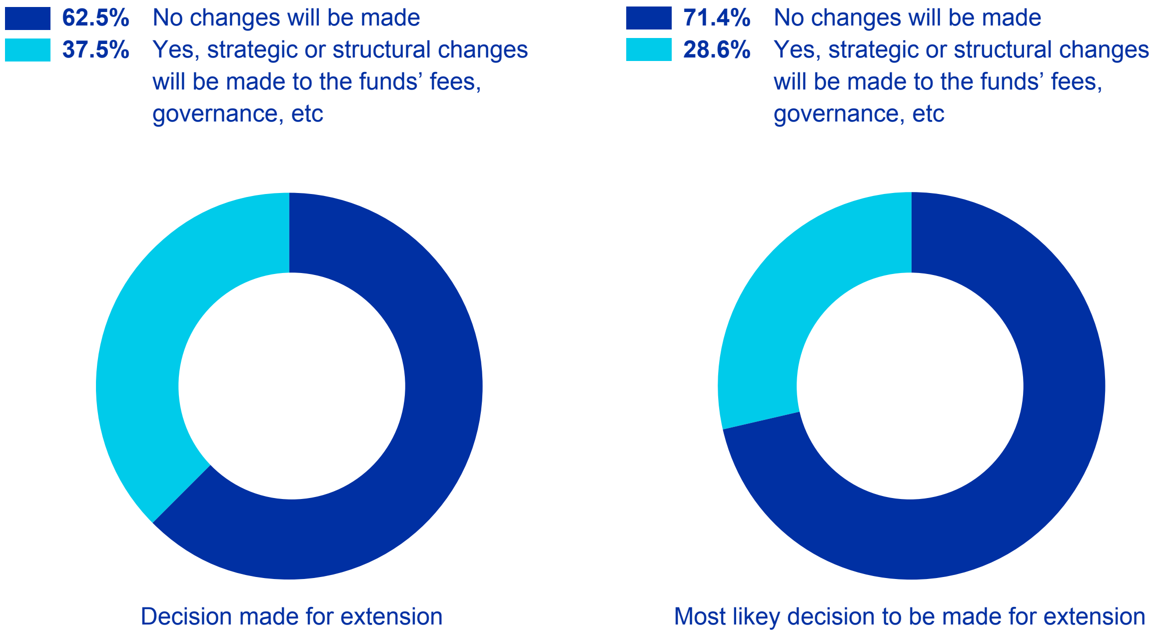
While 37.5% state that there have been some changes, this is a large increase from that observed in 2014. Among the changes mentioned by these fund managers, fee structure changes were the most cited.

Funds that have not yet made a decision for extension but most likely will, have very similar responses to those observed on funds with a certainty of extension. Almost 29% of fund managers that are most likely to extend the fund's life also expect structural or strategic changes to the fund.

Unlike those funds where a decision has been made, 71.4% of fund managers who would most likely choose an extension expect no changes in terms of structure or strategy to the fund.

> 'Structural or strategic changes are not expected for the majority of funds in extension'

Figure 17: Structural changes to funds in extension or most likely to extend



CORPORATE

RESEARCH

INDUSTRY DATA

PUBLIC AFFAIRS

PROFESSIONAL STANDARDS

www.inrev.org