Transparency requires clarity, completeness, comparability and convenient access to data

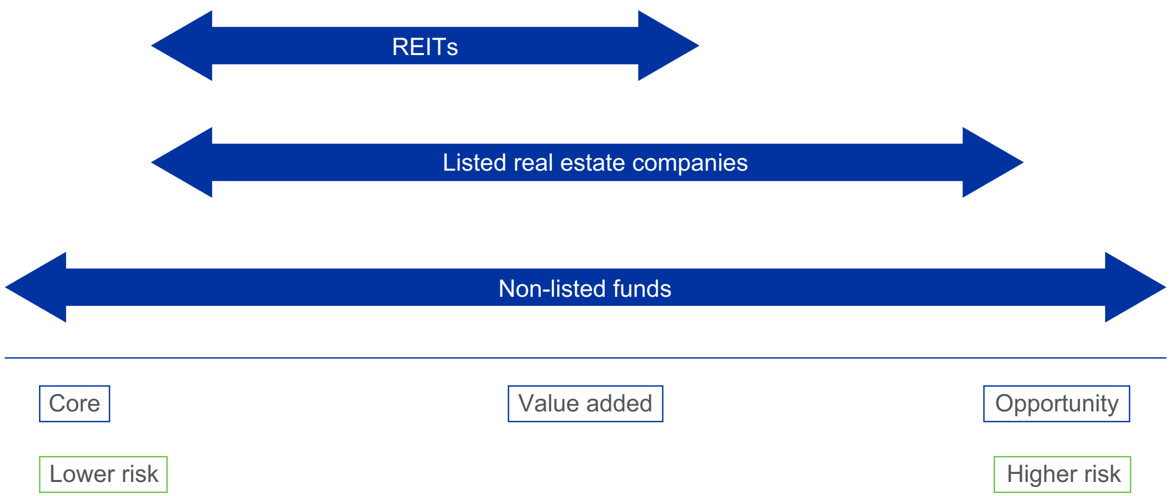
> Expense ratios go a long way towards satisfying these needs, but more is needed

> Expense ratios differ in the non-listed and listed sectors but an approximate common measure is possible

> Decisions are easier when costs are transparent

Investors speak about returns being ‘lower for longer’. If this is the case, expect continuing focus on costs, because in a low return environment the impact of costs is greater. Investors need to understand exactly how much they are paying and for what. This is true of all asset classes. The priority is ensuring that decision-makers have the relevant information at their disposal. That information must be clear, complete and comparable both between and within sectors. That information should also be conveniently accessible. The priorities together form the Four Cs of cost transparency: clarity, completeness, convenience and comparability.

Figure 1: Style coverage of non-listed and listed



Total expense ratios go a long way to meet these priorities, though they work less well for closed end funds. A gross to net IRR or return reduction metric might be more relevant here. Achieving comparability between listed and non-listed real estate is not necessarily a straightforward task, for several reasons. One is that the non-listed sector offers a wider range of investment strategies than the listed sector.

This analysis is somewhat subjective and others may have a different view. The important thing is to consider is the nature of the vehicles and their risk and return pro ile to ensure that, where comparisons are made, cost ratios are being compared for genuinely similar vehicles.

Another is that the non-listed sector has traditionally seen expenses as a percentage of asset value while the listed sector has seen costs as a percentage of income.

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However, this does not prevent a rudimentary comparison being made. To illustrate how, a non-listed type expense ratio was derived for a sample of listed companies, based on their annual accounts. This expense ratio was compared with the average expense ratio for non-listed funds. The resulting total expense ratios (TERs) for listed and non-listed are shown below. Although the numbers are only a rough guide to illustrate the calculation, the equivalent numbers should become more reliable over time as adoption and disclosure of ratios becomes more widespread.

Table 1: Total expense ratios for listed and non-listed real estate

	Listed	Non-listed
GAV	0.58	0.64
NAV	1.00	1.04

Note: This calculation is based on a sample of 11 listed companies and 25 non-listed funds.

Transparent information brings the greatest benefit when it is easily accessible. In the listed sector, annual accounts are the information source of choice, and it is here that improvements could be directed. For the non-listed sector, there is currently no single preferred source of information on fees and costs. Larger institutional investors in non-listed tend to receive a tailored package of information from their managers. However, industry efforts to standardise information exchange are afoot and this work will continue in 2017.

The Four Cs (clarity, completeness, convenience and comparability) summarise the priorities for cost transparency.

Key recommendations:

1. Improve the disclosure of calculation and components of the ratios.
2. Consider additional ratios for both listed and non-listed, especially for closed end funds.
3. Promote wider adoption of guideline disclosures across the listed and non-listed sectors.
4. Review cost terminology.
5. Consider greater disclosure for a small number of very specific items

‘Clear and complete information is useful only if it is accessible’