

Guidelines for Real Estate Funds

2. April 2008

(Status as of 13 September 2016)

I Basic principles, aims and binding force

The following guidelines provide detailed information in respect of specific matters pertaining to the duties of loyalty, due diligence and disclosure of real estate fund management companies and real estate SICAVs as well as representatives of foreign real estate funds, the objective being to ensure the high quality of real estate funds in Switzerland. The guidelines contain basic principles on uniform valuation and information for investors. By establishing standards, the guidelines are also aimed at ensuring the greatest possible transparency in the offering of these products. 1

The guidelines are part of the self-regulation regime of the Swiss fund industry. They are based on Section II of the Code of Conduct of the Swiss Funds & Asset Management Association SFAMA, which applies to all fund management companies and SICAVs as well as representatives of foreign collective investment schemes (referred to below as the “Code of Conduct”). 2

The guidelines apply to 3

- Swiss fund management companies of real estate funds and real estate SICAVs (pursuant to Art. 58 et seqq. CISA); 4
- representatives of foreign real estate funds (pursuant to Art. 119 et seqq. CISA) in respect of Sections D and E of the present guidelines. 5

Exceptions approved by the supervisory authority for real estate funds reserved exclusively for qualified investors pursuant to Art. 10 paras. 3, 3^{bis}, 3^{ter} and Art. 10 para. 4 CISA apply notwithstanding. 6

II Guidelines

A Duty of the fund management company/SICAV in respect of due diligence

1. Ensuring a proper organizational structure

The fund management company/SICAV must implement the necessary organizational measures pursuant to the Code of Conduct (including an internal control system) to enable it to manage its real estate fund business in a proper manner. At the least, it must observe adequate separation of functions with regard to the following activities: 7

- decision-making (in particular in respect of acquisitions, sales and the maintenance 8

of properties) and	
• controlling (e.g. of valuations, execution of delegated tasks and the real estate companies).	9
It will delegate executive functions in respect of the management of real estate funds exclusively to persons with many years of suitable experience in the real estate business and – depending on the task – also in the collective investment business.	10
2. <u>Real estate companies belonging to real estate funds</u>	
The fund management company/SICAV must ensure that the same basic principles and standards apply to real estate companies belonging to the real estate fund as apply to the fund management company/SICAV. In particular, with regard to the structure of the Board of Directors and the Executive Board, the same requirements must apply as for the governing and executive bodies of the fund management company/SICAV.	11
3. <u>Delegation of tasks (Art. 31.1 CISA)</u>	
Where tasks are delegated pursuant to Art. 31.1 CISA, the fund management company/SICAV must conclude an agreement with the agent(s) with specific regulations governing the delegated task, the performance of that task while avoiding potential conflicts of interest, areas of responsibility, powers of authority, scope of liability and fees. Barring any provisions to the contrary in the fund regulations, the agents' fees are borne by the fund management company or the shareholder's assets in the case of a SICAV.	12
The fund management company/SICAV must ensure that the agents are aware of the provisions of the present guidelines and other pertinent guidelines, and it must ensure that the agents are contractually obliged to comply in full with such provisions.	13
4. <u>Relationship with the custodian bank</u>	
The fund management company/SICAV must conclude an agreement with the custodian bank governing the parties' respective areas of responsibility, settlement procedures and interfaces.	14
5. <u>Relationship with the independent valuation experts</u>	
For each real estate fund, the fund management company/SICAV must appoint at least two natural persons or one legal entity familiar with the pertinent real estate markets as independent valuation experts. The appointment requires the approval of the supervisory authority.	15
The fund management company/SICAV will only appoint valuation experts that, in particular, meet the requirements laid down in the law and the regulations with regard to independence, training, experience and knowledge of the market.	16
The details in respect of the cooperation, specifically with regard to settlement procedures, areas of responsibility and fees, are to be covered in an agreement.	17

While safeguarding the independence of the valuation experts, the agreement must also stipulate the valuation method that the valuation experts will as a rule use in conducting their valuations. **18**

B Principles for determining the market value of the properties and other investments

6. Market value

The market value of a property corresponds to the price that would probably be obtained in a diligent sale at the time of valuation. **19**

7. Determining the market value

The market value of the properties is to be determined using a discounted income value approach. The market value is to be determined on the basis of the result of the valuation method applied, taking due consideration of the market environment. **20**

Subject to the exceptions listed below, all properties of a real estate fund must be valued using the same discounted income value approach (standard valuation method). **21**

In the case of those properties that can only be valued using a different valuation method (e.g. undeveloped building land or properties for demolition), the valuation report must give the reasons for selecting the different valuation method and a description of the method in question (cf. Section 16). **22**

8. Discounted income value approaches

The cash value method, the discounted cash flow (DCF) method and other recognized discounted income value methods are recognized as discounted income value approaches. **23**

9. Individual (property-specific) valuation

In every case, the income value of a property requires an individual valuation. Such valuations must take into account all of the factors that experience shows to have an impact on the selling price at the time of the valuation, such as specifically the market environment and the quality of the property concerned. **24**

10. Market environment

The current and expected market environments are decisive factors. The market environment is determined by all of the significant circumstances influencing supply and demand in the regular conduct of commercial activity at the time of the valuation, such as specifically the prevailing economic situation, the capital market and developments, which are to be taken in the context of their impact on the specific property. In this regard, unusual or speculative scenarios may only be taken into account if they are of a lasting nature and their impact on the valuation can be quantified. **25**

The market environment that could result if all of the properties of one or all real estate **26**

funds were to be offered on the market at the same time is not to be taken into account.

11. Quality

The quality of a property is determined in particular by the characteristics of the location, the size and design of the property, utility, rights or liabilities under private or public law, interior works, construction materials, age, condition, rental status, rental potential, rental income, rental income reserves, etc. **27**

Characteristics of a property's location include in particular transport links, neighborhood, attractiveness as a place of residence/business, and environmental factors. **28**

12. Conducting the valuations

The fund management company/SICAV must compile all the relevant documents for the valuation of the property that the valuation experts will need for their valuation activities, and must provide these documents to the valuation experts. **29**

In respect of reviewing the market values pursuant to Art. 93 and Art. 97.3 CISO, the fund management company/SICAV must deliver all the necessary data that have changed since the last valuation. It is responsible for controlling and verifying the valuation results. **30**

13. Valuation report

The fund management company/SICAV must ensure that each valuation is documented in a valuation report in such a manner that it can be readily understood by a professional. The valuation report must be signed by the valuation expert in question. **31**

Reasons must be given for the amounts of the discount rates and other parameters used in the DCF valuation practice, as well as any changes compared with the previous year, and these must be verified. **32**

14. Changing the valuation method

If the fund management company/SICAV changes the valuation method, the valuation experts must inspect all the properties. **33**

The investors must be notified in advance of the change in the valuation method, with reference to the fact that this may result in a higher or a lower valuation. The supervisory authority must also be informed in advance. **34**

15. Valuation of other investments

The fund management company/SICAV must value securities, liquid assets and other investments in accordance with the SFAMA Guidelines on the Valuation of the Assets of Collective Investment Schemes and the Handling of Valuation Errors in the case of Open-End Collective Investment Schemes. **35**

16. Internal directive on valuation and the calculation of the net asset value

The fund management company/SICAV must set down in an internal directive the basic principles, processes and responsibilities applicable in respect of the valuation of the fund's assets. This directive must at least cover the following: **36**

- the description of the valuation method used as standard; **37**
- the description of cases in which methods other than the standard valuation method are used together with a description of the methods (cf. Section 7); **38**
- the interfaces, processes and responsibilities in respect of the valuation experts; **39**
- measures to verify the valuation figures provided by the valuation experts, and procedure to be followed if the fund management company/SICAV does not intend to use these figures; **40**
- responsibility for verifying the determined net asset value within the fund management company/SICAV; **41**
- the internal flow of information (avoidance of conflicts of interest). **42**

17. Issuing units (Art. 66 CISA in conjunction with Art. 97 CISO)

In issuing units, the fund management company/SICAV must take into account the pertinent specialist information factsheet of SFAMA. **43**

C Duty of the fund management company/SICAV in respect of loyalty

Avoidance of conflicts of interest

18. Transactions with closely related persons/entities

[rescinded] **44-51**

The fund management company/SICAV must ensure that it buys/sells real estate assets for the account of the real estate fund only from/to persons/entities who do not qualify as closely related persons pursuant to Art. 91a CISO. It will conclude transactions pursuant to Art. 63 paras. 2 and 3 CISA with related persons only if an exemption has been granted by the supervisory authority (Art. 32a CISO). **52**

The fund management company/SICAV will conclude rental contracts with closely related persons/entities at standard market terms. It will have this confirmed annually by the valuation expert responsible. **53**

The fund management company/SICAV will also conduct all other dealings with closely related persons/entities at standard market terms (at arm's length). **54**

19.	<u>Transactions between real estate funds</u>	
	If a fund management company/SICAV manages several real estate funds, in all transactions between these real estate funds it must be ensured that the real estate funds involved are treated equally and that none is given preferential treatment to the detriment of the others.	55
20.	<u>Personal account dealing by employees</u>	
	The fund management company/SICAV will issue suitable regulations pursuant to the Code of Conduct governing personal account dealing by its employees in units of the real estate fund.	56
 <i>Investment of fund assets</i>		
21.	<u>Basic principle</u>	
	The fund management company/SICAV manages the real estate funds it establishes in accordance with the investment policy and requirements defined for the individual real estate funds. It will not give certain real estate funds and/or investor groups preferential treatment to the detriment of others (e.g. when allocating newly acquired properties).	57
22.	<u>Maintenance and renovations</u>	
	The fund management company/SICAV must ensure that the properties are properly and regularly maintained. It will award contracts independently and only to carefully selected counterparties that offer the best execution overall in terms of price, time and quality. It will use retrocessions and rebates received exclusively for the benefit of the real estate fund. If more than one real estate fund is involved, they will benefit on a pro rata basis.	58
23.	<u>Joint construction projects</u>	
	If the fund management company/SICAV realizes a construction project for the account of the real estate fund jointly with the custodian bank or a closely related person/entity, it must ensure that any ensuing benefits (e.g. favorable terms in the case of a major contract) accrue to the real estate fund in proportion to its stake in the project.	59
24.	<u>Commissions from real estate transactions</u>	
	Any commissions accruing to the fund management company/SICAV for brokering the services of closely related persons/entities in connection with real estate transactions will be credited against the remuneration due to it in accordance with the fund regulations.	60
25.	<u>Other investments</u>	
	If the fund management company/SICAV takes up a loan from the custodian bank for the account of the real estate fund or if it invests liquid assets with the custodian bank, it must make regular comparisons with competitors to ensure that the interest rate is in line with the	61

standard market conditions.

D Duty of the fund management company/SICAV in respect of the disclosure of information

26. Investment character and suitability of the real estate fund

In the sales documentation, the fund management company/SICAV must explain the investment character and suitability of the fund as well as the characteristics of free trading in the fund's units (premium/discount) in a form and language readily accessible to investors (i.e. reader-friendly). It must refrain from making statements on the future performance of the real estate fund. Sales documentation is deemed as being issuing prospectuses and marketing documents that provide detailed information on the fund as promotional material. **62**

However, the fund management company/SICAV may assume that the investor is familiar with the basic fundamentals of investing in real estate. The duty of disclosure thus refers above all to the specific characteristics and risks of the real estate fund, such as for example **63**

- the dependence of earnings on (regional) economic developments; **64**

- key regional factors. **65**

In the annual and semi-annual reports, the fund management company/SICAV must disclose any tenants that account for more than 5% of the total rental income of the real estate fund on the pertinent reference date. If no tenant reaches this 5% threshold, it must disclose this fact. **66**

27. Disclosure of the valuation method

In the annual and semi-annual reports, the fund management company/SICAV must provide information on the method used to value the properties. It must disclose in the annual report the average discount factor applied and must explain the key characteristics of the method selected. **67**

In the event of a change in the valuation method, the duty of disclosure is as covered in Section 14. **68**

28. Standardized key data

The fund management company/SICAV must publish at least the following key data in the annual and semi-annual reports: **69**

- Rent default rate **70**

- Dividend yield **70**

- Borrowing ratio **71**

- Payout ratio **71**

- Operating profit margin (EBIT margin) **72**

- Premium / discount **72**

- Fund operating expense ratio (TER_{REF}) **73**

- Performance **73**

- Return on equity (ROE) 74
- Investment return 74
- Return on invested capital (ROIC) 74a

In addition to these, the fund management company/SICAV is free to publish the following key data, among others: 75

- Net return on completed buildings 76
- Price/earnings ratio (P/E) 76
- Weighted average unexpired lease term (WAULT) 77
- Price/cash flow ratio 77
- Gearing 78
- Market capitalization 78
- Weighted average term of debt 78a
- Interest on debt capital 78a

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The above terms may only be used for key data that correspond exactly to the definitions listed in the SFAMA specialist information factsheet "Key Data for Real Estate Funds" and that are also calculated in accordance with the said factsheet. It is not permitted to use these terms for other key data or key data calculated in a different manner. 80

To ensure the continuity of information for investors, the fund management company/SICAV will publish the same key data in other publications (e.g. factsheets, quarterly reports). In so doing it may restrict itself to the most important key data, but once these have been selected they must be maintained over a prolonged period. 81

29. Announcing price-sensitive changes

The fund management company/SICAV must openly inform investors about changes that could have a significant influence on the pricing of units on the free market. It must take the necessary precautions to prevent insider trading. 82

The fund management company/SICAV must ensure that price-sensitive information is only passed on to the custodian bank's trading units if it is also published for the attention of investors at the same time. 83

For the purposes of the present section, price-sensitive changes are deemed to include the following: 84

- changes of more than 5% in the net asset value of units compared with the most recently published figure; 85
- unexpected events having a significant impact on the income statement (e.g. in the case of an important tenant defaulting or the need for major, unscheduled refurbishment); 86
- decisions by the responsible bodies to restructure, merge or liquidate the real estate fund; 87
- notice having been served on units corresponding to more than 20% of the net fund assets. 88

In the case of listed real estate funds, the fund management company/SICAV must comply with the regulations of the SIX Swiss Exchange on the disclosure of price-sensitive facts (ad hoc publicity pursuant to Art. 72 of the Listing Rules) and on the suspension of trading. **89**

In the case of unlisted real estate funds, the fund management company/SICAV will disclose in the prospectus / annex the procedure for notifying investors of price-sensitive changes. **90**

E Duties of due diligence and loyalty in the distribution of collective investment schemes

30. Application of the SFAMA Guidelines on the Distribution of Collective Investment Schemes

If the fund management company/SICAV distributes the real estate funds it manages via distributors, it must apply the provisions of the SFAMA Guidelines on the Distribution of Collective Investment Schemes. **91**

III Other provisions

A Minimum standard

The Swiss Financial Market Supervisory Authority FINMA has recognized these guidelines as a minimum standard (FINMA Circular 08/10 Self-Regulation as a Minimum Standard). **92**

B Entry into force

The present amended guidelines were approved by the Board of Directors of the Swiss Funds & Asset Management Association SFAMA on 30 September 2016. They enter into force on 1 December 2016. **93**

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