



**EPH**  
EXPAT PENSION HOLLAND



## Investment Funds In General

---

The optimization of investments often regards the investments within and outside of Pension Plans.

The investment process starts with the establishment of the personal risk profile and to implement it with the suitable investment categories. After which spreading investments within each investment category is relevant in order to reduce risks.

The current investment climate is not that easy. The interest rate is at a historical low. As it also has a slightly upward trend, this can have a negative effect on Bonds. As this i.e. leads only to Equity as an investment category with a possible positive return on investment prognoses, it seems wise to look at alternative options. Like Real Estate.

As we prefer Fund Investments over Individual Investments, we will now focus on Real Estate Investment Funds.



## Investing In Real Estate: How Does It Work?

---

### Step 1: Listed or Not

Even though there are many different types, you can i.e. choose between two kind of investments:

- To invest in listed Real Estate Funds;
- To invest in not listed Real Estate Funds.

Listed Funds tend to be easier to sell and have a more volatile value.

### Step 2: Shares or Bonds

After step 1 you have to choose between two kind of investment options:

- Shares: Investing by means of buying a Participation/Certificate of the Real Estate Investment Fund. This means you are shareholder of the Fund and are entitled to the result but might also loose your capital. Before buying such a share, you should check if it also has a voting right.
- Bonds: Investing by means of buying Bonds which often regularly pay-out a not guaranteed amount of interest and which will or might return your capital at the end of the agreed upon term. The return of the capital is however not guaranteed and thus there can be substantial risks. Bonds often have a similar amount of risks as shares: Bonds often do not provide voting rights nor an entitlement to profit.
- There are many kind of variations with elements of both Shares/Bonds.

### Step 3: The Fund invests your Capital

With the capital you and other investors have paid for Shares/Bonds, the Fund buys Real Estate. In general the Board of the Fund makes this decision and you have no influence.



The Fund can periodically receive rent and a sales profit when selling investments. If you are a shareholder, the Fund will in general pay you a part of the profit after their costs have been deducted and after their own entitlement has been withheld.

Finally there are also not listed Real Estate Funds which only invest in Real Estate Funds. This is called 'Indirect Investment in Real Estate'.

## Types Of Real Estate

---

The most important categories within Real Estate Investments are:

- Malls;
- Offices;
- Logistical;
- Industrial;
- Living.

Listed Real Estate Funds in The Netherlands and Belgium focus on a combination of Malls and Offices. Only the Belgium Real Estate Fund WDP focuses on logistical investments. Living Investments are foremost done by private investors and housing associations.

## How To Determine The Value Of Real Estate Funds?

---

The value of Real Estate Investment Funds is i.e. influenced by:

- The location of the properties. A good example is that the best locations can easily be transformed from Malls into Living Real Estate. The value of the location is influenced by expected demographic growth and nearby utilities;
- The level of the Management of the Fund. Great management results in the highest rent income, highest dividend for shareholders and an in time change from one type of Real Estate to the next.
- The capital structure of the Fund and especially:
  - A) The ratio Own Capital/Loaned Capital;
  - B) The Cash Flow;
  - C) The height of the due interest rate and the period for which it has been covered;
  - D) The Balance Value of the Real Estate versus the Market Value.

## Return On Investment Of Real Estate Funds

---

Real Estate Investment Funds often pay-out a large part of their profit as dividend. Often growth is thus based on higher rent income. As they often provide new shares in order to buy new properties, this in general does not have to influence the dividend per share ratio.

The expected height of the dividend is often higher than the Bond related interest rate but the associated risk is also often substantially higher.



The value of Real Estate is cyclic as in times of shortage everybody starts building and vice versa. Which means that investors and management need to have a vision on this cycle.

Finally it is relevant to check the amount of costs of a Real Estate Fund. According to certain experts, higher costs do not lead to better results and should be treated in a critical manner.

## Historical Return On Investment Of Real Estate Funds

---

History shows that the kind of Real Estate has a substantial influence on the return on investment. A good incentive to carefully analyze the expected return on investment and risk related to several kinds of Real Estate.

## Risks Related To Real Estate Investments

---

Besides the usual investment risks, investments in Real Estate have the following specific risks:

- In case you have participated in a not listed Real Estate Fund, your investment is probably not as easy to sell as compared to listed investments. Which is a severe limitation if you ever might need to sell. This should be taken into consideration when determining the desired return on investment. Additional risk requires additional return on investment.
- The value of Real Estate can fluctuate rather quickly and it is difficult for a non professional to determine the current value thereof.
- It is not always easy to determine if the Fund has bought/sold Real Estate for a fair price and to see who have received all benefited thereof.



- Investments in Real Estate Funds have often an additional risk as the sector often borrows a lot of capital to additionally invest. Which effect is even greater in not listed Real Estate Funds. Combined with the just mentioned possible lack of transparency, this really can increase the risk factor which should be compensated by additional return on investment.
- In case the Real Estate Fund does not loan any capital from banks, this might be an indication that the Fund prefers not to show its books to critical external eyes. Please be critical.
- In case the Real Estate Fund is not actively monitored by Governmental Oversight, this can really increase the risk. Which showed in the past as many investors have been cheated by corrupt Funds. Please ask beforehand if the Real Estate Fund has a governmental license or an approved prospectus.

## Dutch Oversight on Real Estate Funds

---

### License/Registration at the Authority Financial Markets (AFM)

Funds who sell **Participations** should in general have an AFM license or registration. These Funds are also by law obligated to have their prospectus checked by the AFM or by a licensed CPA.

Funds who sell **Bonds** are not required to have a license but they do need their prospectus to be checked by the AFM.

In the AFM register everyone can check if a Fund has a license/registration and if a prospectus has been approved of by the AFM.



The AFM does not check if a Participation/Bond of a certain Fund would make a good investment. The AFM only checks if all required information has been deposited.

Finally the AFM has the authority to check if Funds who are not required to have a License/Registration, meet their legal obligation to provide all relevant information to consumers, so that these consumers are able to make a balanced conclusion.

### Exception of No License/Registration at AFM

Many not listed Real Estate Funds are exempted from AFM oversight as they;

- Sell Participations/Bonds of more than € 100.000,- or
- Sell Participations/Bonds with a total of less than € 5.000.000,- or
- Sell Participations/Bonds to less than 150 persons.

These Funds are obliged to state that there is no AFM oversight.

## Dutch Real Estate Funds

---

There are six listed Dutch Real Estate Funds. They have focused especially on Malls and less on Offices. They offer a rather high dividend but the growth potential seems limited according to certain experts.

Two examples of Dutch Real Estate Funds with a good reputation\*:

- Think Global Real Estate ETF;
- Kempen Global Property Fund Index Fund N.V.

\* We are strictly independent and have no ties with these nor other funds.



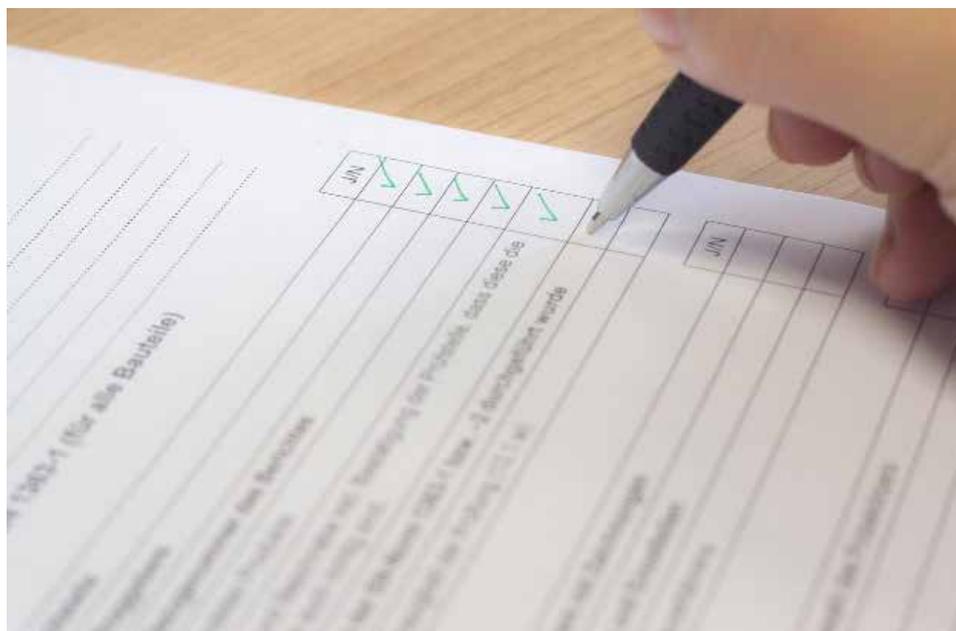
## Checklist For Real Estate Investment

---

As an investment in not listed Real Estate Funds can or will have substantial additional risks, we hereby provide an indicative checklist of relevant aspects you might want to pay attention to:

### Investment

- Do they provide a Prospectus or Brochures which adequately enumerate all relevant details?
- Is there mandatory governmental oversight by means of a License or Prospectus obligation?
- Does the Real Estate Fund offer a website which has all details about the Fund?
- Is it possible to if so desired sell the Participation at any requested moment?
- Is clearly mentioned what the exact *kind* and *amount* of risks are?
- Has the Real Estate Funds committed to external mortgages backed bank loans?



## Provider

- How long has the Real Estate Fund been in business?
- Do you know all persons involved in the Fund?
- Does an internet search provide negative details?
- What has the track record been in the past?

## Return On Investment

- Do they promise a high return on investment?
- Is their projection based on reliable facts?
- Is the return on investment guaranteed and if so, is it based on reliable facts?
- Has clearly been described which costs decrease your return on investment?
- Has your related tax exposure been clearly described?
- Does the Fund need to loan a lot of capital in order to make the investments?



## Real Estate

- Do you completely understand how your capital is being used?
- Have you received detailed information about the exact kind of Real Estate they like to buy and likewise about the Rent prospects?
- Have you received independent estimations of the market value of the property?
- Do you know the history of the property?
- Is the investment in your own country or abroad?
- Is it about regular or non regular Real Estate?

## Oversight

- Are the books being checked annually by a reputable CPA?
- Is there a reputable supervisory board in order to provide advice and oversight?
- Is there a foundation in order to watch over the collective interests of all investors?



## Conclusion

---

If investing in Real Estate Funds fits your personal risk profile, it can be an option to thus provide an additional spread within your Investment Categories.

Due to the (often) existing lack of transparency and lack of governmental oversight, there are additional risks involved which can be very substantial.

Which raises the question if these risks can be quantified in a correct manner and if those risks are compensated by additional return on investment to the deemed suitable extent.

Thus we advise you not to invest in these kind of funds if you cannot rely on a specialized advisor with an excellent reputation and long-term experience.

Finally we caution you about investing in not listed Real Estate Funds as we prefer funds whose participations can always be quickly sold if so desired.

## International experience and Network

---

We have more than 20 years of experience in international expat and collective pension consultancy. Thus we have an elaborate international network. If so desired, we can advise and act swiftly in international matters.



### Contact

For further information please contact pension jurist/consultant Patrick Donders:

Tel: +31 (0)6 26014112

E-mail: [info@expatpensionholland.nl](mailto:info@expatpensionholland.nl)

Site: [www.expatpensionholland.nl](http://www.expatpensionholland.nl)

AFM license number 12043181



**EPH**  
EXPAT PENSION HOLLAND