



ProMS[®]

**Supporting AIFMD
Compliance for Commercial
Property Investors**

Radley & Associates

Supporting AIFMD Compliance for CRE Investors

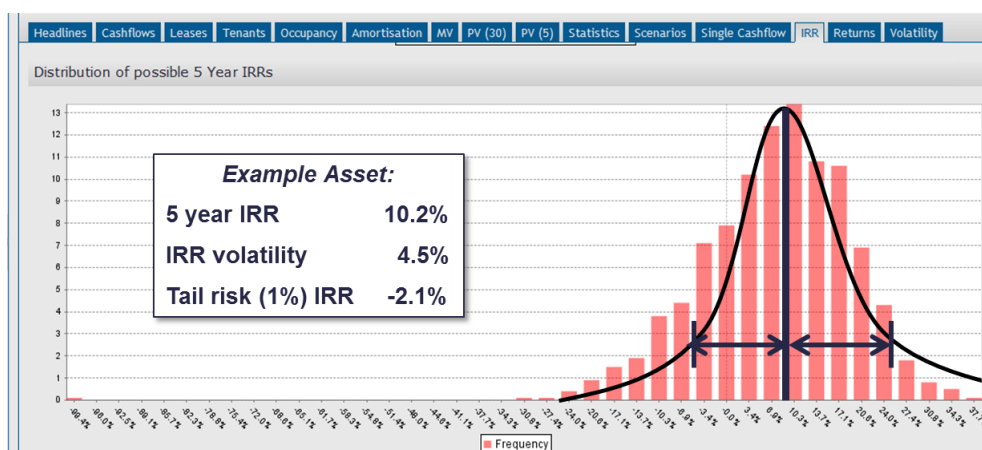
Introduction

For those Commercial Real Estate (CRE) investors that fall under the AIFM Directive, compliance will involve changes to governance, organisational design and operating processes - especially risk management processes. This note focuses on how ProMS is helping organisations comply with some of the most challenging demands of the Directive concerning risk management.

Implementing a Robust Risk Management System

ProMS is a specialist CRE system for investment appraisal and risk measurement. It provides a controlled cash-flow projection and forecasting capability across investment firms. But it also houses an investment risk model which simulates cash-flow projections of each asset, unit by unit, through thousands of carefully correlated economic scenarios. Investors can thus *measure the volatility or risk* of expected returns at an asset, fund or company level on a consistent basis.

Example 5 year IRR distribution (and volatility) for a CRE asset



ProMS calculates a range of risk and return measures to suit the wide-ranging preferences of the investment industry including 5 year and 10 year IRR and Total Returns; 5 year, 10 year and 30 year PV measures as well as simulated 'Red Book' valuations. Risk measures include volatility (standard variation), skew, kurtosis, tail risk (at any confidence interval), and Sharpe ratios. Measures of portfolio level diversification and each individual asset's contribution to diversification can be measured.

Stress Testing

By replacing the quarterly economic scenarios used by the simulation engine, with a single, user generated, stress scenario, ProMS can re-model the expected returns of an investor's assets, unit by unit, quickly and accurately. The resulting analysis can be cut at an asset, sector, fund or company level.

Formalising a Risk Management Framework

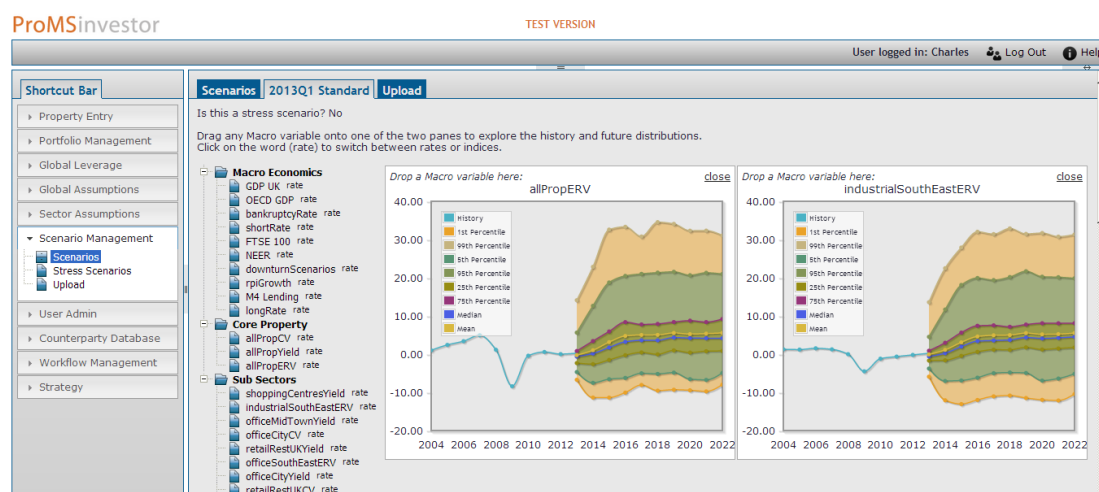
ProMS, provides AIFMD mandated, independent Risk Managers with a consistent calculation basis for organisational discussion, monitoring and management of CRE risk for:

- development and investment assets,
- leveraged and unleveraged assets or funds
- local or home currency assets

It also enables risk managers to monitor and control modelling assumptions and scenarios across the organisation, providing a full audit trail for all investment appraisals.

Local and global economic forecasts can be easily incorporated into ProMS to integrate company approved forecasts with local asset appraisals and reviews.

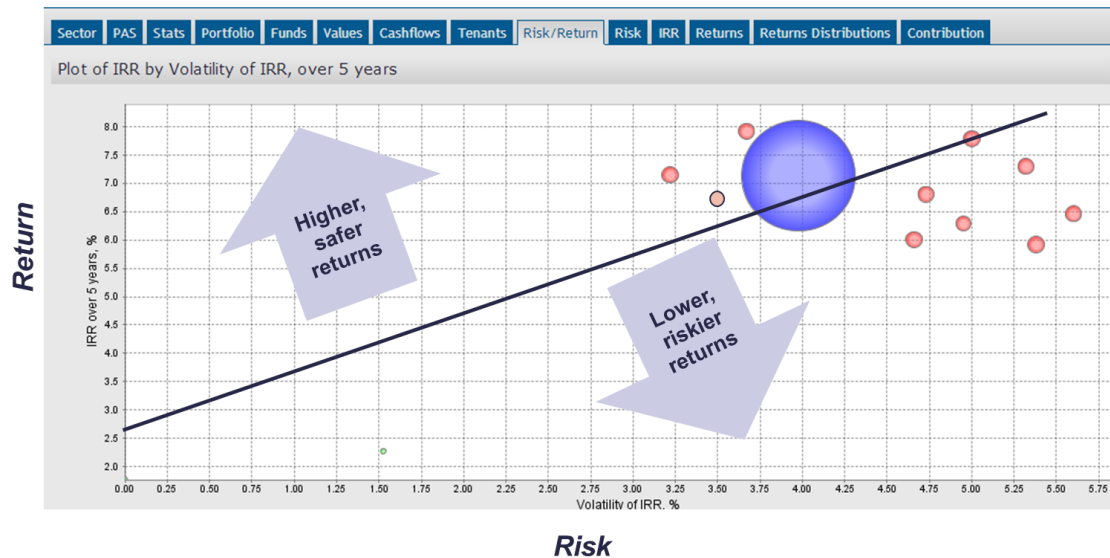
Example history and forecasts for UK all Property and Industrial ERVs



ProMS is a web delivered service that provides flexible, privileged-based access to Asset Managers, Fund Managers, Portfolio Managers, Finance, Strategy teams as well as Risk Managers.

By providing consistent data sources, economic forecasts, assumptions management and risk measurement together, and giving controlled access to this resource, Risk Managers can quickly implement a robust, firm-wide risk management framework.

Example Risk Return Trade-off for a Unleveraged Portfolio



Credible Model Risk Mitigation

Most investors use Excel for Investment appraisal models: and, although they are flexible, Excel models are highly vulnerable to model risk since they depend on extensive, asset specific inputs, complex assumption sets and multiple economic forecasts. ProMS substantially mitigates these risks by:

- Data validation, exception reporting and data management workflow
- Privilege based, central control of all assumptions
- Central or local control of economic forecasts
- Flexible local overrides of assumptions and forecasts
- Twin analysis reporting with centrally set and overridden assumptions
- Complete audit trail and record of every analysis, assumption change and forecast
- Status management for each record, allowing critical analyses to be identified and retrieved (e.g. at Board approval or purchase)
- Live and hypothetical records allowing 'what if' analysis

ProMS provides a complete control and audit framework to substantially mitigate the growing threat of model risk in decision making, especially for large and complex assets and groups of assets.

Summary

ProMS provides newly independent Risk Managers with a sophisticated and flexible resource for building a risk management culture across their organisations and driving compliance with AIMFD in some of its most demanding requirements.

Radley & Associates is an independent firm dedicated to the development of advanced simulation based analytics for the Commercial Real Estate industry. Our clients include leading banks, fund managers and REITS. We have deep expertise in property, simulation modelling, econometric analysis and risk.

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