



**THE SITUS COMPANIES**

***Asset Review Monitoring for  
Compliance***

***Situs Strategic Advisors***

***Trusted InSight into Global Real Estate***

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## Asset Review Monitoring System for Compliance © Scope of Work Checklist

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### New Fund Investment

- Review Investment in New Investment Manager: History of Investment Manager, Potential Fit of Proposed Investment within Portfolio, Strengths and Weaknesses of Investment
- Provide Assistance with Contract Negotiations with Investment Manager
- Provide Orientation for New Investment Manager as to the Plan Sponsor Reporting Processes, Policies, and Procedures as They Relate to the Real Estate Office, Plan Sponsor Internal Valuations, Fiscal, and Legal

### Investment Performance Management

- Review Fund, JV or Private Account Documentation
- Prepare Fund, JV or Private Account Document Abstract
- Review Quarterly Reports
- Review Annual Business Plans/Strategic Plan
- Review of Three Year Historical Operating Financials
- Compare Operating Financials to Industry Financial Benchmarks
- Geographic Market Analysis
- Competitive Property Analysis
- Review of Market Need Inclusive of Demand Drivers
- Review of Future Plans and Developments
- Analysis of Sales and Marketing Techniques
- Review of Internal Market Studies
- Risk Profile Analysis
- Review Hold/Sell Analysis
- Review Terms Relating to Continuation of Investment Manager's Compensation Structure Going Forward
- Capital Deployment/Capital Calls
- Review of Asset Management Fee Calculations
- Review of Incentive Fee Calculations
- Review of Operating Partners
- Review of In-Place Strategy Versus Initial Stated Strategy/Goals
- Review Composite Construction
- Analysis of Debt Position (re-course, cross-collateralization, cross –default)
- Analysis of Interest Rate Management
- Meetings with Investment Manager/Site Inspection of Properties
- Manager Continuation Policy: Rate Managers, Asset Performance, Portfolio Performance
- Review and Benchmark Overall Investment Program
- Provide Full Asset Summary Report

### Valuations

- Monitor Appraisal/Valuation Process and Results
- Appraisal/Valuation Review and Summaries

### Strategy

- Review Investment Manager current Strategy and specific Investments to ensure alignment with originally stated goals for the entity and conforms with the Plan Sponsor portfolio strategy.
- Provide Recommendations Regarding Potential Conflicts or Regarding Misalignment of Interests

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### Other

- ❑ Prepare Research, Analysis, and Advice on Specific Investment Issues, or Conduct Special Projects, as Requested. Such Reports Shall Be Billed Separately at the Agreed Upon Hourly Fee
- ❑ Assists in Sale of Properties on a Case by Case Basis
- ❑ Provide Training to Plan Sponsor Staff on Specific Topics and Specialty Areas as Requested
- ❑ Keep Plan Sponsor Apprised of New or Changes to Industry Practices, Investment Strategies, Vehicles, and Techniques, Upon Request

## Overview of Asset Review Monitoring System for Compliance

In its essence, Asset Review Monitoring System for Compliance (ARMS) is an extension of and aligned with the Plan Sponsor Real Estate Investment Office and System coordinating services between internal departments and external Investment Managers. ARMS acts as the quality assurance or compliance audit arm for Real Estate Investment Officers and Portfolio Managers, providing essential data in a concise format such that Real Estate staff are able to perform the function of building and managing the portfolio.

Asset Review Monitoring will be engaged by the Plan Sponsor to review investments in new managers and importantly, monitor or perform a compliance audit on investment activity, asset performance, and overall program performance.

ARMS would monitor and standardize the entire life cycle of the Investment Manager in which there are several key events/occurrences: (1) approval and funding of Investment Manager/Fund, (2) new manager orientation, (3) monitoring the rate of the capital deployment/capital call, (4) Investment Manager Quarterly Reports, (5) Investment Manager Annual Strategic Plans/Reports along with any additional necessary documentation, (6) the Interim Incentive Fee Calculation period, (7) the Final Incentive Fee Calculation period, and (8) extension of the funding period, if applicable.

Asset Review Monitoring will provide assistance in the orientation process of new managers or funds as to fiscal reporting processes and with the requirements of the Plan Sponsor Investment Office (Real Estate), legal departments, and Plan Sponsor Internal Valuations. Additionally, Asset Review Monitoring will assist these departments within the Plan Sponsor to interface with the Investment Managers to collect reliable and accurate information.

As part of the monitoring/compliance audit process, the Asset Review Monitoring System will collect data which may include, but is not limited to, quarterly reports, annual business plans, operating and financial performance reports, strategic plans for investments, geographic market data, future acquisition and development plans, sales and marketing strategy reports, hold/sell analyses, debt position analyses, interest rate management analyses, and incentive/asset management fee calculations. Asset Review Monitoring, upon completion of a yearly review/audit, will provide an annual Asset Summary Report to the Plan Sponsor Investment Officer and Portfolio Manager. Asset Review Monitoring may also conduct meetings with managers and/or site inspections of the properties within the portfolio. If a site inspection is completed, the inspection reports will be included in annual Asset Summary Report in the year in which the inspections are performed. In short, Asset Review Monitoring will conduct analyses relating to financial and operating performance and then will issue reports to the appropriate departments within the Plan Sponsor.

The Asset Review Monitoring System will also develop and maintain a manager continuation policy that includes manager monitoring and manager review components. The manager monitoring will review the operations and investment strategies, both retrospective and prospective, of all investment managers. For investment managers that violate the quantitative or qualitative criteria of the manager monitoring process, a manager review will be conducted. The manager review will include collection of necessary data, review of all phases of the managers operations, and a formal meeting/interview. If the manager receives a satisfactory rating during the manager review period, the manager will be retained; however, if a manager receives an unsatisfactory score, the manager removal process may be initiated.

Asset Review Monitoring System will complete macro attribution analysis for the fund's real estate investment program and micro attribution analysis for the individual property types. Within this framework, recommendations would be made to enhance returns.

Asset Review Monitoring would act as a check for the Investment Officer of the appraisal/valuation process and its results. Once the Plan Sponsor Internal Valuations has received the property or partnership appraisal or valuation, Asset Review Monitoring will complete a valuation review for the Plan Sponsor Investment Office (Real Estate) as part of the yearly Asset Summary Review Report.

#### Importance of Asset Review Monitoring

Long ago adjudicated as an Alternative Asset Class, real estate has only recently been more able to begin to standardize and gain certain market efficiencies. ARMS would have the capacity to provide independent fiduciary opinions.

The sheer size of Plan Sponsor real estate portfolios coupled with the rebalancing of these portfolios establishes the need for **very precise metrics** for performance measurement, analyses to effect **proper asset management**, and the provisioning of **reliable** and **accurate data** for fiscal purposes.

#### ARMS & Portfolio Structure

ARMS should be combined with a total return portfolio structure to take into account the effect of external market environment factors (alpha, beta, and gamma) and the effect of the management process (including returns from: interest rate management, sector/quality management, selection of properties, operational income, realized gains and unrealized gains).

#### Final Comments

In the final analysis, the Asset Review Monitoring System will operate as the internal quality control or compliance audit platform or function for plan sponsor real estate investments and portfolios, internal valuations, real estate investment managers, and external appraisal/valuation firms.

The following flow charts and lists are a graphic depiction of the role of the Asset Review Monitoring System for your review. This system is based on several factors including our philosophical thoughts, empirical observations, and our familiarity with Plan Sponsor operations.

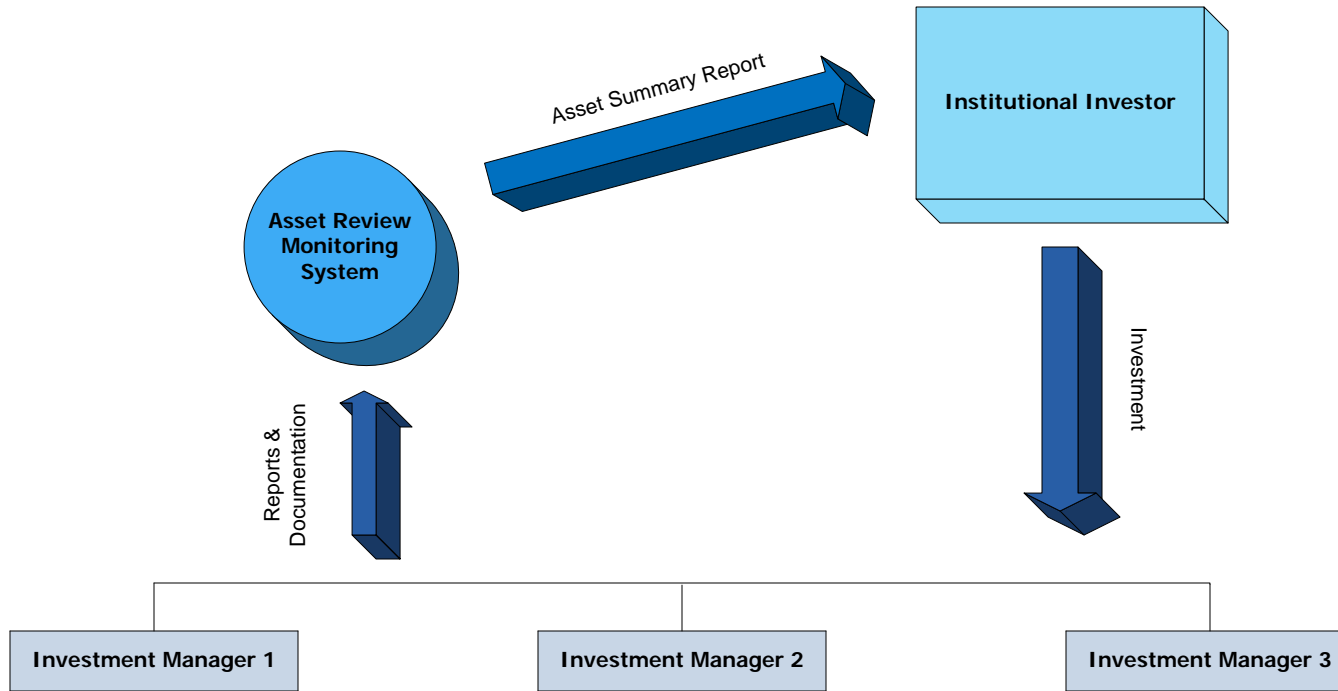
We look forward to being of service to you in this area and discussing any questions or comments you may have.

Cordially,



Stephen R. Ganns  
Managing Director  
Situs Strategic Advisors

Asset Review Monitoring System for Compliance



# Total Portfolio Return

