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Index Methodology

MSCI REIT Preferred Index (MSRP) Methodology

Index Construction and Maintenance Methodology for the MSCI REIT
Preferred Index

February 2011

1. Introduction

The MSCI REIT Preferred Index (MSRP), formerly known as the Morgan Stanley REIT Preferred Index, is a preferred stock market capitalization-weighted total return index of certain exchange-traded perpetual preferred securities issued by US Equity and US Hybrid REITs. This document contains the guidelines MSCI uses to construct and maintain the MSRP Index.

2. Defining REITs and MSRP Eligible Preferred Stocks

A Real Estate Investment Trust, or REIT, is a company that in most cases owns and operates income producing real estate assets. Some REITs provide loans to the owners and operators of real estate. To qualify as a REIT under the Internal Revenue Code, an entity is required to distribute at least 90% of its taxable income to shareholders annually and receive at least 75% of that income from rents, mortgages and sales of property. REITs are typically classified into one of the following categories:

- An Equity REIT owns and operates real estate directly. Equity REITs generate income from rental and lease payments, and they offer the potential for growth from property appreciation as well as occasional capital gains from the sale of property.
- A Mortgage REIT provides loans to owners and operators of real estate assets or holds or trades mortgage-backed securities. Mortgage REITs earn interest income and are subject to credit risk (that is, the chance that a loan will not be repaid).
- A Hybrid REIT holds both properties and provides mortgage loans to real estate owners and operators.

Preferred stocks commonly pay dividends at a specified rate (usually specified at the time of issuance). Preferred stockholders are also commonly paid dividends before dividends are paid to common stock holders. In addition, preferred stockholders often have priority over common stockholders in the event of bankruptcy or liquidation.

2.1. Eligible Preferred Stock

Non-convertible perpetual preferred securities with fixed dividends or indexed yields, issued by US Equity and US Hybrid REITs, that trade on the NYSE, AMEX, or NASDAQ are eligible for inclusion in the MSRP Index. Publicly traded preferred securities issued in a private transaction are not eligible for inclusion.

2.2. Non-eligible Issuers

Preferred stocks issued by Mortgage REITs, Real Estate Operating Companies (REOCs), limited partnerships, limited liability companies, and non-publicly traded REITs are generally not eligible for inclusion in the MSRP Index.

3. Screening Securities for Investability

No liquidity, length of trading period, size, shares outstanding, or price screens apply to the selection of MSRP eligible preferred stocks.

4. Maintenance of the MSCI REIT Preferred Index

Maintenance of the MSRP Index emphasizes continuity and minimizing unnecessary index turnover. Overall, the index is maintained and changes are implemented as follows:

- Quarterly index reviews: intend to reconstitute the index by reviewing the eligibility of constituents and non-constituents preferred securities issued by publicly traded US Equity REITs and US Hybrid REITs.
- Monthly share reviews: aim to update the current shares outstanding of index constituents reflecting changes greater than 5%.
- Ongoing event-related changes: depending on their nature may be implemented in the index as they occur.
- Dividend reinvestment: a dividend is a distribution of cash made by a company to its preferred security shareholders.

4.1 Quarterly Index Review

The Quarterly Index Review (QIR) process is designed to ensure that the index continues to be an appropriate reflection of the eligible preferred US REIT universe. The index is fully reviewed on a quarterly basis, at the end of March, June, September and December. New eligible issues are considered for inclusion and current index constituents that no longer meet the eligible criteria as described in Section 2.2 are deleted from the index.

During each QIR, a new preferred security universe is identified and securities meeting the eligibility screens described in Section 2 are added to the pro forma index. In general, data as of the close of 10

business days prior to the last trading day in March, June, September and December is used to determine the eligible universe.

All updates in numbers of shares of index constituents are implemented in the index simultaneously with the additions and/or deletions from a QIR. Changes resulting from a QIR are implemented as of the close of the last business day of March, June, September and November. Such changes are typically announced at least two business days prior to the effective implementation dates.

4.2 Monthly Share Review

The monthly share review process is designed to ensure that constituents of the index continue to reflect available market capitalization. During each monthly share review, changes of greater than 5% in the shares outstanding of index constituents are implemented. These changes in shares outstanding may result from, but are not limited to:

- Partial redemptions or share buy-backs
- Follow-on offerings
- Exercise of over-allotment options by underwriters

Changes resulting from the monthly share review are implemented as of the close of the last business day of each month.

4.3 Ongoing Event-Related Changes

Ongoing event-related changes can be classified into three broad categories:

- Full redemption of existing index constituents
- Corporate events affecting existing index constituents
- Changes in eligibility affecting existing index constituents

4.3.1 Full Redemption of Existing Index Constituents

Full redemption of a preferred security involves the issuer calling/redeeming all the outstanding shares of a series for retirement. The full redemption of an index constituent will generally result in a deletion at the constituent's par value as of the close of the last trading date. In addition, regular accrued dividends are reinvested on the ex-date or the last trading date, as the case maybe. However, accumulated unpaid dividends declared as part of the full redemption terms will not be reinvested in the index.

4.3.2 Corporate Events Affecting Existing Index Constituents

Corporate events affecting existing index constituents include mergers and acquisitions (M&As), delistings, bankruptcies and other similar corporate events. These changes are generally reflected in the indices as they occur.

The acquisition or merger of the issuer of an MSRP index constituent by or with a non-eligible entity will typically result in the deletion of such constituent. In many cases, the acquired company subsequently ceases to exist as an independently publicly traded entity.

However, an index constituent typically remains in the index if the acquiring company is an eligible REIT and the transaction does not involve the redemption of the preferred securities of the existing constituents. In addition, the maintenance of the constituent in the index is conditional upon satisfying all the eligibility screens described in Section 2.

As a general principle, MSCI implements deletions resulting from corporate events using market prices or based on the terms of the transaction. In addition, accrued dividends are reinvested on the ex-date supplied by the issuer or the last trading date as the case may be. However, accumulated unpaid dividend declared as part of the terms for the corporate event are not be reinvested in the index.

4.3.3 Changes in Eligibility Affecting Index Constituents

The characteristics of current index constituents may change, resulting in a review of their eligibility status. The following changes will trigger an immediate eligibility review:

- Issuer is no longer a publicly traded US Equity or Hybrid REITs
- Issuer becomes a Mortgage REIT
- Issuer fails to maintain REIT status or elects to terminate its REIT status as defined by the Internal Revenue Code

MSCI will remove from the MSRP Index as soon as practicable securities that do not meet the eligibility criteria described in Section 2.

4.4 Dividend Re-investment

MSCI reinvests regular dividends in the MSRP Index the day the security is quoted ex-dividend (ex-date) on its principal exchange (where its price is taken from). For securities trading on more than one exchange, MSCI uses the ex-date from the exchange from which MSCI sources the security's price.

In the case where the security does not trade on the ex-date the dividend will be reinvested on the earliest date that the security trades after the dividend.

Finally, accumulated unpaid dividends, if and when declared, are not reinvested in the index.

5. Late Implementation of Index Deletions

When the deletion of an index constituent is announced too late to be reflected as of the close of the last trading day, implementation occurs as of the close of the following day or as soon as practicable thereafter. In the case of a full redemption, MSCI will generally carry forward the par value of the impacted index constituents. However, if not possible, MSCI will use the last trading day's market price or determine the price using the terms of the transaction.

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