

MSCI REIT Preferred Index Methodology

Index Construction and Maintenance Methodology for the MSCI
REIT Preferred Index

June 2023

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1 Introduction

The MSCI REIT Preferred Index (formerly known as the Morgan Stanley REIT Preferred Index or MSRP), is a preferred stock market capitalization-weighted total return index of certain exchange-traded perpetual preferred securities with fixed dividends or indexed yields¹ that are issued by US Equity REITs. This document contains the guidelines MSCI uses to construct and maintain the MSCI REIT Preferred Index.²

¹ Note that the MSCI REIT Preferred Indexes have a different eligible universe from the MSCI Global Investable Market Indexes. The securities eligible for the MSCI REIT Preferred Indexes are not eligible for the MSCI Global Investable Market Indexes since they are not considered equity-like.

² The Indexes are governed by a set of methodology and policy documents ("Methodology Set"), including the present index methodology document. The Methodology Set for the Indexes can be accessed from MSCI's webpage <https://www.msci.com/index-methodology> in the section 'Search Methodology by Index Name or Index Code'.

2 Defining REITs and 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.

MSCI classifies REIT securities into one of the Real Estate Investment Trust (REITs) Sub-Industries within the Global Industry Classification Standard (GICS®³) structure. The GICS structure includes thirteen Equity REITs Sub-Industries and one Sub-Industry for Mortgage REITs. The Equity REITs Sub-Industries are part of the Equity Real Estate Investment Trusts (REITs) Industry Group under the Real Estate Sector. The Mortgage REITs Sub-Industry is part of the Financials Sector. The thirteen Equity REITs Sub-Industries aim to represent REITs with distinct property type profiles.

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

The eligible universe for the MSCI REIT Preferred index includes non-convertible perpetual preferred securities with fixed dividends or indexed yields, and with all the following characteristics:

- Must be issued by companies classified as US companies under the MSCI Global Investable Market Indexes Methodology.
- Securities must be listed on one of the eligible US exchanges as defined in the MSCI Global Investable Markets Indexes Methodology (i.e. NYSE, NYSE Arca, NYSE American, NASDAQ, Investors Exchange, or Bats Exchange).
- Must be issued by companies classified under the Equity Real Estate Investment Trusts (REITs) Industry within the Global Industry Classification Standard (GICS) structure.

³ GICS®, the global industry classification standard jointly developed by MSCI and S&P Global. For more information visit <https://www.msci.com/our-solutions/indexes/gics>

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 MSCI REIT Preferred Index.

3 Screening Securities for Investability

No liquidity, length of trading period, size, shares outstanding, or price screens apply to the selection of eligible preferred stocks for the MSCI REIT Preferred Index.

4 Maintenance of the MSCI REIT Preferred Index

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

- Quarterly index reviews: aim to reconstitute the index by reviewing the eligibility of constituents and non-constituents preferred securities issued by publicly traded US Equity REITs. Current shares outstanding of index constituents are also updated.
- 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 2.1 are deleted from the index.

Existing constituents of the MSCI REIT Preferred Index that are no longer classified under the Equity Real Estate Investment Trusts (REITs) Industry Group within the Global Industry Classification Standard (GICS) structure which were announced on or before the index review price cutoff date, as defined in Section 4.1.1, are deleted from the MSCI REIT Preferred Index as part of the QIR.

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.

In order to ensure that index constituents continue to reflect available market capitalization, outstanding shares are reviewed as part of the QIR. Changes greater than 5% in the outstanding shares of existing 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

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 December.

4.1.1 Cutoff Date for Market Capitalization and Prices Used for the Rebalancing

MSCI uses pro forma data as of any one of the last 10 business days prior to the last trading day in March, June, September and December.

4.1.2 Announcement Policy

The results of the rebalancing are typically announced at least two business days prior to the effective implementation dates.

4.2 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

With the exception of the treatment as described below, details regarding the treatment of corporate events not covered below can be found in the MSCI Corporate Events Methodology Book, available at: <http://www.msci.com/index-methodology>

4.2.1 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.

4.2.2 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 indexes as they occur.

The acquisition or merger of the issuer of an MSCI REIT Preferred 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 reinvested in the index.

4.2.3 Changes in Eligibility Affecting Index Constituents

The characteristics of current index constituents may change, resulting in a review of their eligibility status.

Securities that are no longer classified under the Equity REITs Industry Group within the Global Industry Classification Standard (GICS) structure or that do not meet the eligibility criteria described in Section 2 will be removed from the MSCI REIT Preferred Index at the following QIR.

4.3 Dividend Re-Investment

MSCI reinvests regular dividends in the MSCI REIT Preferred 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.

Changes to the Methodology Book

The following sections have been modified since December 2014:

4. Maintenance of the MSCI REIT Preferred Index

Clarified share reviews to coincide with quarterly reviews

4.1 Quarterly Index Review

Clarified share reviews to coincide with quarterly reviews

4.2 Monthly Share Review

Deleted this section

The following sections have been modified since August 2016:

2.1 Eligible Preferred Stock

- Updated to reflect revised GICS structure effective September 1, 2016

The following sections have been modified since November 2016:

2. Defining REITs And Eligible Preferred Stocks

- Clarified classification of REITs in the GICS structure

The following sections have been modified since September 2017:

Section 4.1 Quarterly Index Review

New sub-sections added

Section 4.2: Ongoing Event-Related Changes

Added clarification

The following sections have been modified since June 2018:

Section 2.1 Eligible Preferred Stock

Updated eligible exchanges

The following sections have been modified as of September 2022:

Section 4 Maintenance of the MSCI REIT Preferred Index

- Clarified treatment for existing constituents that had a GICS change on or before the Index Review price cutoff date

The following sections have been modified as of June 2023:

- Methodology book was updated to reflect the New Structure of GICS® effective June 1 2023.

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