TIME-WEIGHTED RETURN METHODOLOGY FOR MSCI PROPERTY FUND INDEXES: CONSULTATION RESULTS

April 2020

Introduction

On April 1, 2020, it was announced that MSCI has decided to implement the time-weighted return methodology with adjustment for daily weighted external cash flows for certain of the MSCI Property Fund Indexes.

During the consultation on the change, MSCI gathered the views of a wide variety of market participants across several countries, including fund managers and asset owners, among others. MSCI's decision sought to balance global methodological consistency and best practice and the enhanced range of index solutions that would bring to the global real estate investment market against the risk of reduced coverage and hence decreased transparency which stems from the hesitancy of some data providers to adapt to altered data collection requirements of the methodology change.

The purpose of this document is to outline key feedback related to the proposed changes following the consultation.

For further information, please refer to conclusion of MSCI's consultation on using a time-weighted return methodology for the MSCI property fund indexes available at: https://www.msci.com/real-estate-index-announcements.

The timelines in this document do not account for any adverse impacts resulting from the current COVID-19 pandemic including, among other things, the provision of new data required for the enhanced methodology by index constituents. Any changes to the above timelines would be announced with sufficient lead time.

1 Index return calculations to use Time-Weighted Return Methodology (reflecting daily-weighted external cash flows at fund level) replacing the Unitized Methodology

This was broadly supported as it should help provide more comparable analyses of the overall fund level return. In the case where the current index represents the individual return of a single investor, the index should reflect the return of the aggregated fund including new and existing investors. The overall feedback for the UK market was that clients would like to see the impact to fund results as well as the aggregated results before implementing this change. Therefore, MSCI has decided to have another consultation for the UK market when the results would be available with a 3-years history in early 2021.

While some commented that the fund manager has limited influence on cash-flows timing, MSCI views the daily-weighting of the external cash-flows as a more accurate return calculation.

2 Return calculations to be based on the underlying data and not using the stated returns

MSCI will move away from the current mixed approach: data-based for the MSCI Australia, UK and Pan-Europe Property Fund Indexes vs. supplied returns-based for Canada and USA indexes, etc. The consistency introduced by the same return calculation methodology will also allow more flexibility in reweighting fund indexes, currency conversion and the aggregation of both closed- and open-end funds for fund managers and asset owners. For consistency in individual fund reporting, however, MSCI can use the stated returns, if desired.

3 Fund-level returns to be made available both on a Net and Gross fund-level return fee basis

This proposal was widely supported with most wanting to see the increased transparency at the (aggregated) index level. MSCI will provide detailed definitions addressing which fee items should be included when sharing the data collection templates and definitions.

4 Income return calculation to be based on the net investment income

Most respondents supported the proposal to have the income return based on the net investment income. MSCI notes that there can be a deviation between the income return and the distribution which might include realized profits on sales and the income return. MSCI will continue to calculate the dividend yield.

5 Use of a consistent interpolation method when data is not available

The proposal to have a uniform interpolation method that would be applied if detailed information was not to be available was broadly supported.

5.1 NET ASSET VALUE (NAV)

Some data providers may have monthly NAVs available but others only quarterly. Moreover, this variation can also occur within a market and/or within a single fund management house (across funds). The frequency of the determination of NAVs can also change over time. Monthly NAVs may or may not be based on revaluation of assets. The typical NAV treatment in the instance without revaluation is aligned to the proposed methodology of using the latest NAV based on revaluation and then adjusting that for the external cash flows and the retained income. MSCI considers the interpolation proposal strikes a reasonable balance between using the higher frequency data while maintaining market coverage and transparency.

5.2 CAPITAL IN- AND OUTFLOWS

Capital in- and outflows are in general available on a day-dated basis and therefore an interpolation is not required. While institutional funds see limited quarterly flows dates, property funds for retail investors that can usually be traded on a daily basis may see frequent in- and outflows. In those instances, marking timing to the middle of the month in absence of day-dating was largely accepted by respondents.

5.3 NET INVESTMENT INCOME

Not all data providers are able to provide the net investment income on a monthly basis. The proposed apportionment of equally spreading the net investment income reported quarterly across the months in the quarter was supported. MSCI is also supportive of the data provider providing alternative apportionment if it is deemed materially more accurate. MSCI will provide more detailed definitions of the net investment income with the data collection templates and definitions.

6 Discontinuation of the adjustment for cross-holdings for the UK and Australian markets

Most respondents supported the proposal. All respondents agreed that fund-of-funds should be excluded from fund indexes. MSCI believes that requirements regarding maximum exposure of indirect real estate holdings should form part of the index inclusion criteria.

7 Implementation timelines for changes

The implementation of the methodology enhancements will have an impact both on the data collection as well as on the index calculation. Regarding the timelines for transition the feedback was that in general, a 6 months transition period for a parallel run of index results with 3-years of history was sufficient.

The overall feedback for the UK market was that the transition period might be too short. MSCI has decided to have another consultation for the UK market when the results would be available with a 3-years history in early 2021.

Most respondents supported the proposal on implementing the methodology forward only (with no restatement of the history) and splicing the index series as well as the fund performance.

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