

# **MSCI/PREA U.S. AFOE Quarterly Property Fund Index (Unfrozen) Methodology**

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## 1 Introduction

The objective of the MSCI/PREA U.S. AFOE Quarterly Property Fund Index (Unfrozen) (“U.S. AFOE PFI”) is to represent the performance of the U.S. based open-ended commingled real estate funds for institutional investors. The index is value-weighted, based on the Weighted Average Equity of its constituent property funds each quarter and is denominated in United States Dollars (USD).

## **2 Methodology Documentation Set**

The construction and maintenance rules for the U.S. AFOE PFI are collectively described in the following documents:

### **2.1 MSCI REAL ESTATE INDEX POLICIES**

The [MSCI Real Estate – Index Policies](#) document describes the various governance policies related to the construction, maintenance and termination of the MSCI Private Real Estate Indexes to provide consistency in decisions and avoid ambiguity in its responses to particular events.

### **2.2 MSCI PROPERTY FUND INDEXES METHODOLOGY**

The [MSCI Property Fund Indexes Methodology](#) describes the general methodology that is being used for the calculation of the MSCI Property Fund Indexes and includes the methodology for the index composition, data requirements and index calculation methodology.

### **2.3 MSCI/PREA U.S. AFOE QUARTERLY PROPERTY FUND INDEX (UNFROZEN) METHODOLOGY**

This document includes the rules and methods specific to the U.S. AFOE PFI.

### 3 MSCI/PREA U.S. AFOE Quarterly Property Fund Index (Unfrozen) Specific Methodology

#### 3.1 INITIAL INCLUSION REQUIREMENTS

##### **INCLUSION REQUIREMENTS FOR MSCI/PREA U.S. AFOE QUARTERLY PROPERTY FUND INDEX (UNFROZEN)**

In addition to the standard MSCI requirements for property fund indexes (refer to [MSCI Property Fund Indexes Methodology](#) for further details), there are additional eligibility requirements for initial inclusion in the U.S. AFOE PFI. The U.S. AFOE PFI comprises of funds that adhere to specific criteria relating to their investment mandate and their structure. For inclusion in U.S. AFOE PFI with history, funds must meet the following criteria based on the latest data at the point of inclusion. Funds must:

1. Be a professionally managed pooled/commingled property fund providing access to direct property returns for institutional investors. Fund of property funds, Debt funds and Property derivative funds are not eligible for inclusion within the index.
2. Be an Open-ended or Semi Open-ended fund. In case a fund closes to new contributions or redemptions for a sustained period of time, its inclusion in the index will be reviewed.
  - a) Semi open-ended funds are open-ended funds where investors may be subject to an initial “lock up”, typically for the first 3 to 5 years of the life, during which either:
    - i. investors are not permitted to redeem their investment
    - ii. redemptions by investors are restricted to a maximum fixed percentage of their investment in any one year
3. Have a Gross Asset Value<sup>1</sup> (GAV) greater than USD 150 Million.
4. Have at least 95% of the Gross Asset Value (GAV)<sup>1</sup> invested in assets within the U.S.A.
5. Have at least 85% of the fund’s Gross Asset Value invested in Direct Real Estate properties (by capital value).

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<sup>1</sup> Gross Asset Value (GAV) is derived as a sum of Direct Real Estate Properties, Cash, Mezzanine Loans (Debt Investment), Indirect Real Estate, Real Estate Derivatives, Forward Commitments & Other Assets.

6. Funds where the General Partner/Manager or equivalent for the fund has a discretionary mandate to manage its investments, are included in the index.
7. Fund is incorporated using a recognized legal structure.
8. Fund must provide the data to calculate underlying direct property performance measured by MSCI, at least quarterly.
9. Funds must provide the data required for fund reconciliation analysis to MSCI, at least quarterly.
10. Participating funds must agree for the fund's name, date of inclusion in the index, and date of exclusion from the index to be included in all the index releases and associated materials.

### 3.2 CHANGE IN COMPOSITION

The addition of new funds and withdrawal/termination of existing funds are normal events in the evolution of the MSCI Property Fund Indexes. For the U.S. AFOE PFI, additional requirements and clarification have been provided below.

#### New Funds:

- a) are required to provide data of their investment performance as per requirements<sup>2</sup>, subject to a minimum of either five years or the period from date of launch of the fund

#### Removed/Withdrawn Funds:

- a) Withdrawal from the index should be through written communication to MSCI

#### Re-admitted Funds:

- a) In order to be re-admitted to the index, the funds must provide MSCI with the data to calculate their investment performance during the whole period since their last inclusion in the index.
- b) Re-admitted funds are subject to the same eligibility requirements as potential new constituents.

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<sup>2</sup> refer section 3 of the [MSCI Property Fund Indexes Methodology](#)

Formal communication of a material change in the index composition will be done through an Index Announcement made available at [www.msci.com](http://www.msci.com), in accordance with the thresholds as defined in the [MSCI Real Estate – Index Policies](#).

### 3.3 INDEX SERIES

The standard index publication comprises of MSCI/PREA U.S. AFOE Quarterly Property Fund Index (Unfrozen) which is the headline index series of U.S. AFOE PFI and includes funds that meet the criteria for inclusion as defined in section 3.1, of this methodology document. The index measures gross and net of fees total return of property funds and has a base date of December 2007.

### 3.4 QUARTERLY ELIGIBILITY ASSESSMENT OF INDEX CONSTITUENTS

The fund characteristics may change over time either strategically or temporarily due to market movements or transaction activity. The quarterly review of eligibility is designed to ensure that the index composition is aligned with index inclusion criteria on an on-going basis. An observation period for funds temporarily not-aligned to the index inclusion criteria is aimed at stability of index composition. Both quarterly review of eligibility and observation period ensures on-going review of index composition and reporting using a rules based approach.

**Quarterly Review:** Following the index inclusion, MSCI reviews the constituent funds of the U.S. AFOE PFI every quarter for their eligibility into the index based on the certain rules, as listed in Appendix 7.1. Any non-adherence to the criteria based on quarterly eligibility assessment of the funds will result in a rules-based index exclusion, subject to the observation period, where applicable.

The rules within the scope of Quarterly Review and Observation Period are listed in Appendix 7.1.

**Observation Period** is defined as a time window of four quarters in which MSCI will monitor the existing index funds that are in temporary non-adherence to a particular criteria. Any non-adherence to the specific inclusion rule for four consecutive quarters will result in rules based exclusion of the fund in the fourth quarter .

See Exhibit 1 below for illustration of methodology of observation period applicable to the index.

**EXHIBIT 1: ILLUSTRATION OF METHODOLOGY – OBSERVATION PERIOD FOR EXISTING INDEX CONSTITUENTS**

	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10
<b>Inclusion rule compliance (Yes / No)</b>	Yes	Yes	No	No	No	No	No	No	Yes	Yes
			Observation Period Prior to Exclusion (4 quarters)				Fund excluded from the index		No observation period before Re-admission of fund	
<b>Index Inclusion Status (Yes / No)</b>	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	Yes



## **4 Data Provision Requirements**

### **4.1 NET ASSET VALUE REPORTING REQUIREMENTS**

In addition to the standard requirements, as part of the MSCI Global Data Standards for Real Estate Investments, there are additional requirements for the Net Asset Value reporting. These requirements are:

- a) Funds are required to report their NAV at least quarterly and should have done so for the whole of the period of their performance history within the index.
- b) Each fund's NAV should be based on the quarterly revaluation of 100% of the assets and liabilities. The valuation must also cover properties held through joint or indirect investments. Any other indirect property investments, such as shares in listed property companies and derivatives, should also be re-valued.
- c) Constituents of the index should calculate their NAV data on a consistent basis from quarter to quarter. The method of calculation should be either based on a recognized methodology as determined by international or local accounting standards or specified in the fund's articles of incorporation.
- d) Constituent funds must agree to disclose the basis of NAV computation to MSCI.
- e) Constituent funds of the index must provide IPD independent confirmation of the fund's NAV. This validation can take the form of an external auditor's statement of NAV or statements of value from an independent external appraiser.
- f) The revaluation of the property portfolio should be undertaken at least quarterly by a third party appraiser.
- g) NAV used in performance calculations is net of fund management fees.

## 5 Index Calculation Methodology

The MSCI/PREA U.S. AFOE Quarterly Property Fund Index is constructed by applying Modified Dietz computation methodology as detailed in the [MSCI Property Fund Index Methodology](#).

### 5.1 UNFROZEN HISTORY REPORTING

The U.S. AFOE PFI returns are unfrozen, which means they do not have fixed histories and returns will be updated when new data becomes available or corrections are made. Therefore inclusion of a new fund with historic data impacts the historical index returns. MSCI evaluates from time to time to determine if it is suitable to freeze the Index.

## **6 PREA | MSCI U.S. Index Advisory Board (USIAB)**

The USIAB is an advisory group of users and data providers for the U.S. AFOE PFI. The functions of this group include:

- a. Providing feedback to MSCI on the development of content for the index.
- b. Providing feedback to MSCI on the inclusion and classification rules for funds within the index, based on investment mandates and actual data.
- c. Providing feedback to MSCI on changes to the technical specification or the rules of the index.

MSCI retains sole discretion over the index methodology, its application and any changes.

## 7 Appendix

### 7.1 INCLUSION CRITERIA FOR MSCI/PREA U.S. AFOE QUARTERLY PROPERTY FUND INDEX (UNFROZEN)

#	Index Inclusion Rules and Data Requirements	Eligibility reviewed at the point of inclusion	Quarterly review of eligibility	Observation period
1	Fund must be a professionally managed commingled/pooled property fund providing access to direct property returns for institutional investors	Yes	--	--
2	Fund must be Open-ended or Semi open-ended fund	Yes	--	--
3	Fund must have a Gross Asset Value <sup>3</sup> (GAV) greater than USD 150 million	Yes	--	--
4	At least 95% of the fund's GAV invested in assets within the U.S.A	Yes	--	--
5	At least 85% of the fund's GAV is invested in Direct Real Estate properties (by capital value)	Yes	Yes	4 quarters
6	The General Partner/Manager or equivalent for the fund has a discretionary mandate to manage its investments	Yes	--	--
7	Fund is incorporated using a recognized legal structure	Yes	--	--
8	Fund must provide the data to calculate underlying direct property performance measured by MSCI, at least quarterly	Yes	Yes	--
9	Funds must provide the data required for fund reconciliation analysis to MSCI, at least quarterly	Yes	Yes	--
10	Participating funds must agree for the fund's name, date of inclusion in the index, and date of exclusion from the index to be included in all the index releases and associated materials	Yes	--	--

<sup>3</sup> Gross Asset Value (GAV) is derived as a sum of Direct Real Estate Properties, Cash, Mezzanine Loans (Debt Investment), Indirect Real Estate, Real estate derivatives, Forward Commitments & Other Assets

## 8 Versioning Table

Version	Publication Date	Key Changes
V1	July 2022	Release of the MSCI/PREA U.S. AFOE Quarterly Property Fund Index (Unfrozen) Methodology



## Contact us

realestate@msci.com

+ 44 20 7336 4783

### AMERICAS

Canada + 1 416 687 6284

US + 1 212 804 3900

### EUROPE, MIDDLE EAST & AFRICA

UK + 44 20 7336 9200

France + 44 20 7336 4783

Germany + 49 691 3385 900

Italy + 44 20 7336 9684

Spain + 34 93 467 7403

South Africa + 27 11 656 2115

Sweden + 46 8 400 252 30

### ASIA PACIFIC

Australia + 61 2 9033 9300

Hong Kong + 852 2844 9333

Singapore + 65 6826 9339

Japan + 81 3 5211 1455

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