

# Real estate index announcement

June 2021

## Conclusion of MSCI Consultation on Using a Time-Weighted Return Methodology for the MSCI/AREF UK Quarterly Property Fund Index

**London, June 30 2021:** MSCI Inc. (NYSE: MSCI), a leading provider of research-based indexes and analytics, announced today the conclusions from its recent consultation with the UK real estate investment community, including fund managers and multi-managers, on the incorporation of a time-weighted return (TWR) methodology (reflecting daily-weighted external cash flows at fund level) for use in the MSCI/AREF UK Quarterly Property Fund Index.

Based on the consultation feedback, MSCI has decided to implement the following:

- For the **MSCI/AREF UK Quarterly Property Fund Index**, no changes will be made to the current index calculation methodology and it will continue to be based on the unitized computation methodology with adjustments for cross-holdings.
- For the UK funds within the **MSCI Global Quarterly Property Fund Index (Unfrozen)**, MSCI will, as proposed, implement the TWR computation methodology. The TWR methodology will be applied on a moving forward basis only with no restatement of index history. The transition date for UK funds will be as of Q1 2022 results reporting, as announced earlier.

### Rationale

During the consultation, MSCI gathered the views of a wide variety of market participants in the UK, including fund managers and multi-managers. MSCI's decision sought to balance the demand for global methodological consistency and an enhanced range of index solutions from global investor and manager clients against the demand for UK specific use-cases from the UK fund managers.

Some of the UK real estate investment community are concerned about differences between the TWR methodology, which reflects an aggregated fund return, and the unitized methodology, which reflects investors' return on existing units (without transaction costs). Although the impact at index-level is limited, the impact of the proposed change could have a larger impact on individual fund returns. This would mainly impact funds with considerable new capital inflows and having high transaction costs due to the bid-offer spreads. The consultation feedback highlighted the preference to have the calculation methodology used for individual investor reporting align with that used in MSCI UK property fund indexes and related products. Therefore, the proposed change would reduce the usability for investor reporting and could result in a potential reduction of the index coverage due to unavailability of data.



For the global investment community, fund managers and asset owners investing internationally see the benefit of the TWR methodology in creating global consistency and like-for-like comparisons. Changing to TWR will move all funds included in the MSCI Global Quarterly Property Fund Index to a consistent methodology. The change will also allow returns to be calculated on a net and gross fee basis, and income return to be based on the net investment income (currently it is partly based on distributions). Any reduction in UK coverage in the Global Quarterly Property Fund Index due to unavailability of day-dated cash flows and net investment income for UK funds is not anticipated to have a material impact in the MSCI Global Quarterly Property Fund Index composition.

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To learn more, please visit [www.msci.com](http://www.msci.com).

*The process for submitting a formal index complaint can be found on the index regulation page of MSCI's website at: <https://www.msci.com/index-regulation>.*

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