

The MSCI logo consists of the letters "MSCI" in a white, serif font, set against a dark blue rectangular background.The text "Index Methodology" is positioned on the right side of a decorative horizontal line that features a central wave-like dip.

MSCI Core Real Estate Indexes Methodology

Index Construction and Maintenance Methodology for the MSCI Core Real Estate Indexes

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Introduction

The MSCI Core Real Estate Indexes, based on the MSCI ACWI Investable Market Indexes (IMI) (the “Parent Index”), are designed to reflect the performance of stocks in the Parent Index engaged in the ownership, development and management of specific core property type real estate. Specifically, these indexes exclude companies that do not own properties. For example, companies active in real estate services and real estate financing are not included in the MSCI Core Real Estate Indexes.

The MSCI Core Real Estate Indexes are segmented by country and region, property type, REIT status and rental income.

In addition, the new MSCI Core Real Estate Factor Indexes seek to reflect the performance characteristics of a range of investment styles and strategies in the listed real estate space (such as small size, volatility and high yield) using transparent and rules-based methodologies. These indexes often use weighting methods other than market capitalization.

Section 1: Defining Eligible Securities for the MSCI Core Real Estate Indexes

The MSCI Core Real Estate Indexes are derived from the MSCI ACWI IMI, a global index consisting of developed and emerging market countries across the large, mid and small cap size segments. MSCI Core Real Estate Indexes seek to reflect a narrower definition of the real estate universe compared to the broader GICS based real estate classification to more closely reflect the public market of real estate investors. The MSCI Core Real Estate Indexes are weighted by free float adjusted market capitalization.

Constituents of the MSCI Core Real Estate Indexes are a sub-set of the Real Estate Global Industry Classification Standard (GICS®) industry group.

To be included in the index, a company needs to derive at least 75% of its revenues from real estate related to a combination of the following property types:

- Industrial
- Office
- Retail
- Residential
- Health Care
- Hotel & Resort
- Storage

In addition, the following types of companies are not eligible for the index:

- Companies classified in the Real Estate Services GICS sub-industry
- Companies classified in the Mortgage REIT GICS sub-industry
- Real Estate holdings defined as companies having the majority of its assets invested in other listed real estate companies
- Specialized REITs that are not involved in core real estate property types listed above

Section 2: Segmentation of the MSCI Core Real Estate Indexes

Each company included in the MSCI Core Real Estate Indexes is classified into a country, attributed a property type, and has a REIT and rental status. These attributes aim to allow the MSCI Core Real Estate Indexes to be divided into segments meaningful to real estate investors. As an example, the MSCI USA IMI Core REIT Residential Index includes securities of companies from the MSCI ACWI IMI Core Real Estate Index that are classified in the US, are REITs and are classified in the Residential property type.

2.1 Country Classification

Companies are classified into countries and regions as per the MSCI Global Investable Market Indexes methodology. Consequently, the MSCI Core Real Estate Indexes are compatible and consistent with the MSCI ACWI IMI used as a policy benchmark by many asset owners.

2.2 Property Type Classification

Each core real estate index company is attributed one of the following property types:

- Industrial
- Office
- Retail
- Residential
- Health Care
- Hotel & Resort
- Storage
- Diversified

To be included in a property type, the security needs to derive at least 60% of its revenues from real estate of that type. If no specific property type accounts for at least 60% of revenues, the company is classified as “Diversified”.

2.3 REIT Status

Securities that are part of the REIT GICS Industry are attributed a REIT status.

2.4 Rental Status

Companies deriving at least 75% of their revenues from rental activities are attributed a rental status. This allows the creation of indexes focusing on companies with rental revenue stream.

Section 3: Maintenance of the MSCI Core Real Estate Indexes

The maintenance of the MSCI Core Real Estate Indexes includes:

- Index Reviews of the Parent Index in February, August, May and November
- Annual Eligibility Review in May
- Ongoing event-related changes

3.1 Quarterly and Semi-Annual Index Reviews of the Parent Index

During Semi-Annual and Quarterly Index Reviews, the Parent Index is reviewed under the guidelines of the MSCI Global Investable Market Indexes methodology. Changes in the Parent Index during Index Reviews impact the MSCI Core Real Estate Indexes as follows:

- Existing constituents of the MSCI Core Real Estate Indexes that are deleted from the Parent Index are also deleted from the MSCI Core Real Estate Indexes
- Eligible securities as per Sections 1 and 2 that are added to the Parent Index as part of the Quarterly Index Review or that have been added to the Parent index since the previous Quarterly Index Review are also added to the MSCI Core Real Estate Indexes
- Changes in the Foreign Inclusion Factors (FIF) and Number of Shares (NOS) for securities in the Parent Index are also applied to the securities included in the MSCI Core Real Estate Indexes

For more information on Index Reviews for the MSCI Global Investable Market Indexes, please refer to Sections 3.1 and 3.2 of the MSCI Global Investable Market Indexes methodology book available at www.msci.com.

The impact of the Quarterly and Semi-Annual Index Reviews of the Parent Index on the MSCI Core Real Estate Indexes is announced nine business days before the effective date.

3.2 Annual Eligibility Review

In addition to changes from the review of the Parent Index, the eligibility of all constituents is reassessed once per year, coinciding with the May Semi-Annual Index Review of the Parent Index. Current constituents of the MSCI Core Real Estate Indexes remain eligible as long as the proportion of revenues derived from eligible property types as described in section 1 does not fall below 50%. Current constituents with a rental status remain eligible for the rental status as long as the proportion of revenues derived from rental activities as described in section 2.4 does not fall below 50%. The impact of the Annual Eligibility Review is announced nine business days before the effective date.

3.2 Ongoing Event-Related Changes

The Parent Index is updated to reflect ongoing event-related changes in accordance with the MSCI Global Investable Market Indexes methodology. Ongoing event-related changes in the Parent Index are reflected in the MSCI Core Real Estate Indexes at the time of the implementation of the event in the Parent Index:

- Existing constituents of the MSCI Core Real Estate Indexes that are deleted from the Parent Index are also deleted from the MSCI Core Real Estate Indexes
- Eligible securities not currently constituents of the MSCI Core Real Estate Index that are added to the Parent Index are reviewed for inclusion at the subsequent Quarterly Index Review
- Changes in the Foreign Inclusion Factors (FIF) and Number of Shares (NOS) for securities in the Parent Index are also applied to the securities included in the MSCI Core Real Estate Indexes

For more information on the implementation of corporate events in the MSCI Global Investable Market Indexes, please refer to Section 3.3 of the MSCI Global Investable Market Indexes methodology book available at www.msci.com.

The impact of other ongoing event-related or GICS-related changes to the MSCI Core Real Estate Indexes are typically deferred to the next Index Review with the exception of changes in REIT status that are implemented simultaneously with the GICS classification change.

Section 4: MSCI Core Real Estate Factor Indexes

The MSCI Core Real Estate Factor Indexes seek to reflect the performance characteristics of a range of investment styles and strategies in the real estate industry using transparent and rules-based methodologies. The following factor indexes are currently part of the MSCI Core Real Estate Factor Index family:

- Equal weighted, aimed at capturing the size factor
- Volatility Tilt, aimed to reflect the performance of the Volatility factor by tilting the market capitalization weights of all the constituents in the parent index towards low volatility stocks
- Minimum Volatility, aimed to reflect the performance of a minimum variance strategy on listed real estate
- High Dividend Yield, aimed to capture the high dividend yield opportunity within listed real estate
- Liquid Real Estate Indexes, multi-asset class indexes aimed to achieve a risk/return profile similar to direct real estate indexes

4.1 MSCI Equal Weighted, Volatility Tilt, Minimum Volatility and High Dividend Yield Factor Indexes

The corresponding factor index methodologies can be found on MSCI's website at the following link:

<http://www.msci.com/products/indexes/strategy/factor/>

The High Dividend Yield methodology has been adjusted to better fit the specifics of listed real estate as follows:

- The payout screen is defined relative to cash earnings instead of earnings given the typical high depreciation and amortization expenses included in earnings of listed real estate companies.

4.2 MSCI Liquid Real Estate Indexes

4.2.1 Introduction

The MSCI Liquid Real Estate Indexes are multi-asset class indexes aiming to achieve a risk/return profile similar to direct real estate indexes using liquid instruments. The construction methodology for these indexes seeks to address key differences between listed and direct real estate indexes:

- The broad listed real estate opportunity set such as the one defined by the Real Estate industry group within the Global Industry Classification Standard (GICS®) includes companies that are not directly exposed to typical properties found in direct real estate indexes, such as Mortgage REITs or Real Estate Services companies
- Listed real estate indexes have higher volatility and equity beta than direct real estate indexes
- Performance of listed real estate companies reflects leverage whereas direct real estate indexes are calculated on an unlevered basis

These indexes are constructed by combining MSCI Core Real Estate Volatility Tilt Indexes and Markit iBoxx inflation-linked indexes. Historically¹, they have demonstrated the following characteristics:

- Lower volatility and maximum drawdown than pure equity listed real estate indexes
- Higher correlation with direct real estate indexes than pure equity listed real estate indexes
- Similar performance to direct real estate indexes
- Lower beta to the equity market than pure equity listed real estate indexes

As of October 2014, the following indexes are part of the MSCI Liquid Real Estate Index family:

- The MSCI USA IMI Liquid Real Estate Index
- The MSCI UK IMI Liquid Real Estate Index

4.2.3 Index Construction Methodology

The construction of an MSCI Liquid Real Estate Index involves the following steps:

1. Constructing the MSCI Core Real Estate Volatility Tilt Index
2. Combining the MSCI Core Real Estate Volatility Tilt Index with the Markit iBoxx short-duration (1-5 years) inflation linked index

4.2.3.1 Constructing the MSCI Core Real Estate Volatility Tilt Index

The construction of the MSCI Core Real Estate Volatility Tilt Index is described in sections 2 and 4.1 of this document.

4.2.3.2 Combining the MSCI Core Real Estate Volatility Tilt Index with Markit iBoxx short-duration inflation linked index

The MSCI Liquid Real Estate Index is constructed by deleveraging the MSCI Core Real Estate Volatility Tilt Index.

Deleveraging aims to reduce the impact of leverage used by listed real estate companies on the index and achieve a return closer to the unlevered return on the underlying properties. It is based on the following financial statement analogy:

$$\text{Return}(\text{Listed Real Estate}) = \text{Leverage} \times \text{Return}(\text{Physical Property}) - \text{Cost of Debt}$$

Leverage is determined by the index level debt-to-price ratio of the MSCI Core Real Estate Volatility Tilt Index and is calculated as follows

$$\frac{D}{P} = \sum_i \omega_i \times \left(\frac{D}{P}\right)_i$$

where

- ω_i is the weight of the constituent i in the MSCI USA IMI Core Real Estate Volatility Tilt Index
- $\left(\frac{D}{P}\right)_i$ is the debt-to-price ratio for constituent i

¹Based on historical simulations of the MSCI USA IMI Liquid Real Estate Index and the MSCI UK IMI Liquid Real Estate Index

All data is taken as of the end of month preceding the index review date (for example, as of April end for the May index review). Securities with no debt-to-price ratio are assigned the median debt-to-price ratio of the constituents for which data is available.

The MSCI Liquid Real Estate Index is finally derived by combining the MSCI Core Real Estate Volatility Tilt Index with the Markit iBoxx short-duration inflation linked index in the following proportions:

- Weight of Fixed Income = $\left[\left(\frac{D}{P} \right)^{-1} + 1 \right]^{-1}$
- Weight of Equity = 1 – Weight of Fixed Income

These weights are reset semi-annually, coinciding with the May and November Semi-Annual Index Reviews. In between index reviews, the weights of the two components are allowed to fluctuate with the performance of each component.

As of October 2014, the following Markit iBoxx indexes are used for the construction of the MSCI Liquid Real Estate Indexes:

- The Markit iBoxx TIPS Inflation-Linked 1-5 year Index for the MSCI USA IMI Liquid Real Estate Index
- The Markit iBoxx UK Gilt Inflation-Linked 1-5 year Index for the MSCI UK IMI Liquid Real Estate Index

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The company's flagship product offerings are: the MSCI indexes with over USD 9 trillion estimated to be benchmarked to them on a worldwide basis¹; Barra multi-asset class factor models, portfolio risk and performance analytics; RiskMetrics multi-asset class market and credit risk analytics; IPD real estate information, indexes and analytics; MSCI ESG (environmental, social and governance) Research screening, analysis and ratings; and FEA valuation models and risk management software for the energy and commodities markets. MSCI is headquartered in New York, with research and commercial offices around the world.

¹As of March 31, 2014, as reported on June 25, 2014, by eVestment, Lipper and Bloomberg