

# Australia Unlisted Core Wholesale Fund Index & Property Index

**MSCI CONSULTATION PROPOSAL TO INTRODUCE PFI  
SUB-INDEXES & PROPERTY INDEX BASED ON  
FROZEN INDEX METHODOLOGY**

**November 1, 2022**

This consultation may or may not lead to the implementation of any or all of the proposals mentioned. Consultation feedback will remain confidential. MSCI may publicly disclose the feedback of a participant if so requested by any participant. In that case, the relevant feedback would be published at the same time as the final results of the consultation.

# Executive Summary

**Proposal:** MSCI proposes the following product enhancements:

1. Introduce sub-indexes within MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index, proposed to be based on frozen\* methodology
  - To be frozen each month (same as MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index)
2. Introduce all measures reported for MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index, proposed to be based on frozen\* methodology
  - To be frozen each month
3. The Property Council of Australia/MSCI Australia Core Wholesale Annual Property Index (Unfrozen) published quarterly, proposed to be based on frozen\*\* methodology
  - To be frozen each quarter

## Objective of the proposal:

- Alignment of index series between Australia Core Wholesale PFI and its sub-indexes
- Alignment between Australia Core Wholesale PFI and Australia Core Wholesale Property Index

# Executive Summary

## Benefits:

- Offer market information product for Core Wholesale PFI based on frozen methodology
- Offer Enterprise Analytics (EA) products based on frozen methodology
- Enables MSCI to reconcile the benchmark performance of Direct investments with the fund index return based on frozen index methodology which is used as a policy benchmark as per YFYS

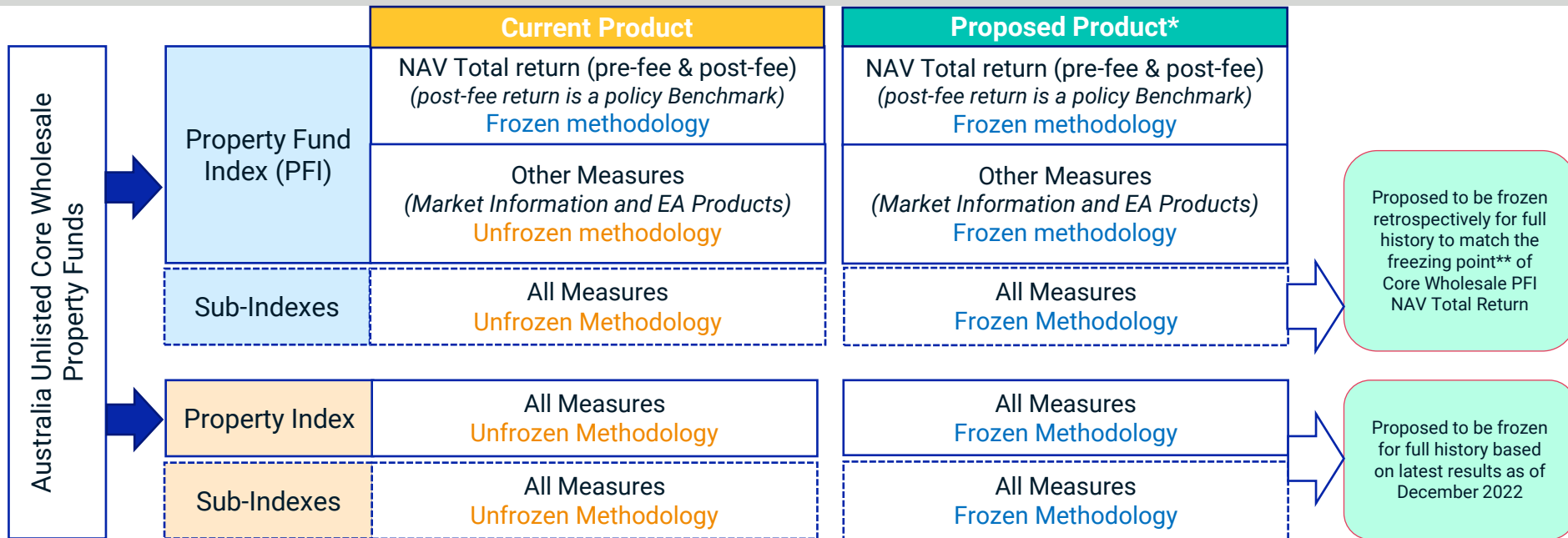
## • Key Dates:

- Consultation launch – 1 November 2022
- Consultation completion – 30 November 2022
- MSCI decision communication – On or before 12 December 2022

## • Implementation: Proposed changes to be implemented for period-end reporting of December 2022

- Australia Core Wholesale Monthly Property Fund Index >> January 2023
- Australia Core Wholesale Annual Property Index (published quarterly) >> February 2023

# MSCI Consultation Proposal



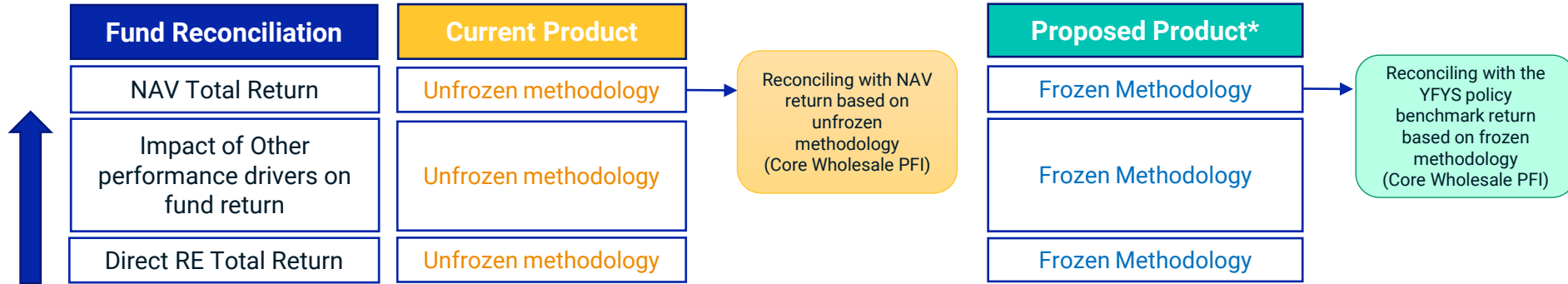
- Proposal applies to benchmark (index/sub-index) results that are proposed to be based on frozen methodology
- Performance of Core Wholesale funds (target leverage ≤40%) proposed to be based on frozen methodology, in alignment with Australia Core Wholesale PFI
- Performance of 'Total Wholesale' series will continue to be based on unfrozen methodology

# Assessment for Proposal to Freeze Indexes

As per MSCI's Index Methodology\*, the following criteria are assessed to make a proposal for Property index & PFI Sub-Indexes to be based on frozen methodology:

- Alignment with Australia Core Wholesale Property Fund Index (PFI) which is based on frozen methodology
  - Australia Core Wholesale Property Index has the same funds contributing to index as that of Core Wholesale PFI
- Stability in index composition
  - During the last 5 years the index composition has remained unchanged
- Non-material impact of historical data changes
  - No material change to property index return due to historical data changes in the past
- High index coverage
  - Index as well as sub-indexes cover all unlisted core wholesale open-ended funds in Australia, indicating high representativeness
- Trends in valuation frequency
  - Properties of Unlisted Core Wholesale Funds are re-valued either internally or externally on quarterly basis
  - Improving external valuation for holdings of Unlisted Core Wholesale funds, increased from <70% (2011) to >85% (2022)

# Benefit of Proposed Changes for Fund Reconciliation



## Background:

- As per existing fund reconciliation analysis, Direct RE return is reconciled with fund index return that is based on unfrozen methodology, whereas the YFYS policy benchmark return is based on frozen methodology

## Benefit of Proposed Changes:

- Enables MSCI to perform fund reconciliation using the YFYS policy benchmark\*\* return of MSCI/Mercer Australia Core Wholesale Monthly PFI (i.e., based on frozen methodology)

**Implementation:** Product changes to be implemented from December 2022 period-end results reporting



\* In addition to products based on frozen methodology, capability to offer products based on unfrozen methodology is available

\*\* Benchmark results to be based on frozen methodology whereas portfolio results reported in products, to be based on unfrozen methodology

# Simulated Results

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**PFI SUB-INDEXES AND PROPERTY INDEX BASED ON FROZEN INDEX  
METHODOLOGY**

# Proposal for PFI sub-indexes to be based on frozen methodology

## Simulated Results | Total Return (post-fee) | Frozen vs. Unfrozen

- **Simulated Results:** Comparing the Net Total Return of sector based sub-indexes based on unfrozen methodology (as published in digest) with the simulated return based on frozen methodology (as proposed)
- **Office Sector:** No material difference to the returns of sub-index based on Office sector funds

Total Return (Post-fee) - as of June 2022	3mth	1yr	3yr	5yr	8yr	10yr
Unfrozen (Current)	2.38%	11.36%	8.57%	10.53%	11.83%	11.22%
Simulated Frozen (Proposed)	2.38%	11.36%	8.59%	10.44%	11.78%	11.18%
Diff – Frozen vs. Unfrozen	0.00%	0.00%	0.02%	(0.09%)	(0.06%)	(0.04%)

- **Retail Sector:** No material difference to the returns of sub-index based on Retail sector funds

Total Return (Post-fee) - as of June 2022	3mth	1yr	3yr	5yr	8yr	10yr
Unfrozen (Current)	2.09%	8.47%	(2.70%)	0.64%	3.99%	4.79%
Simulated Frozen (Proposed)	2.09%	8.42%	(2.71%)	0.63%	3.96%	4.79%
Diff – Frozen vs. Unfrozen	0.00%	(0.05%)	(0.02%)	(0.01%)	(0.03%)	0.00%



# Proposal for PFI sub-indexes to be based on frozen methodology

## Simulated Results | Total Return (post-fee) | Frozen vs. Unfrozen

- **Simulated Results:** Comparing the Net Total Return of sector based sub-indexes based on unfrozen methodology (as published in digest) with the simulated return based on frozen methodology (as proposed)
- **Industrial Sector:** Material difference (78bps) to the 1yr Total return of sub-index based on Industrial sector funds, due to historical data re-provision by certain index constituents

Total Return (Post-fee) - as of June 2022	3mth	1yr	3yr	5yr	8yr	10yr
Unfrozen (Current)	4.23%	21.23%	18.35%	15.40%	13.65%	12.94%
Simulated Frozen (Proposed)	4.23%	20.45%	18.10%	15.25%	13.56%	12.95%
Diff – Frozen vs. Unfrozen	0.00%	(0.78%)	(0.25%)	(0.15%)	(0.09%)	0.01%

- **Diversified funds:** No material difference to the returns of the sub-index based on Diversified funds

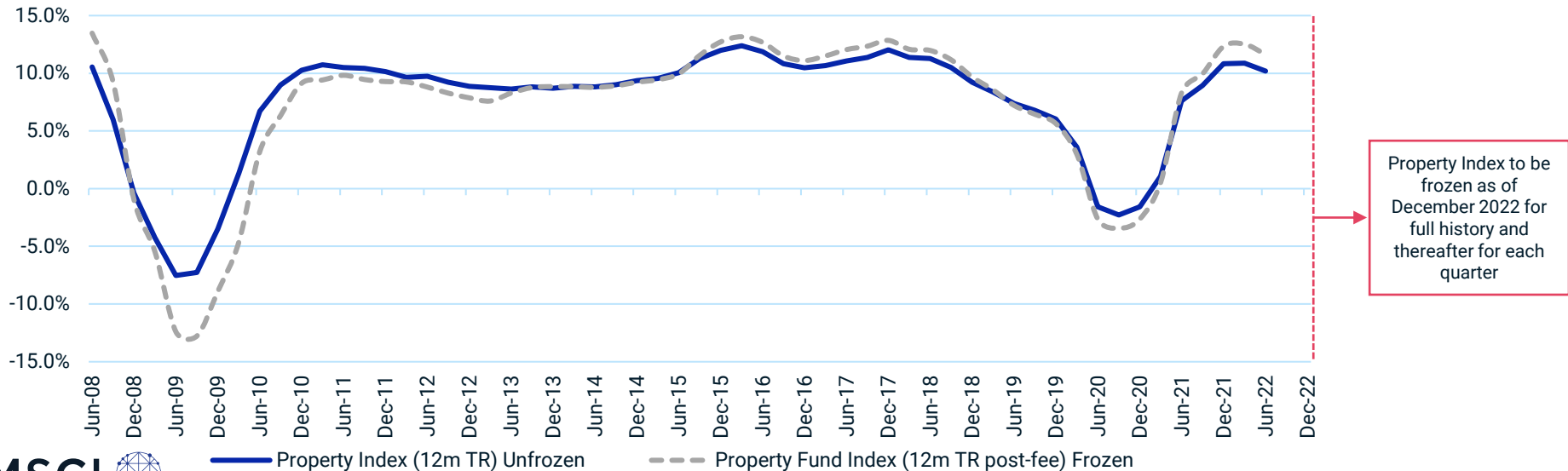
Total Return (Post-fee) - as of June 2022	3mth	1yr	3yr	5yr	8yr	10yr
Unfrozen (Current)	2.70%	11.81%	6.52%	7.64%	8.98%	8.89%
Simulated Frozen (Proposed)	2.70%	11.81%	6.52%	7.64%	8.98%	8.89%
Diff – Frozen vs. Unfrozen	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

# Australia Core Wholesale Annual Property Index (Published quarterly)

## Proposal

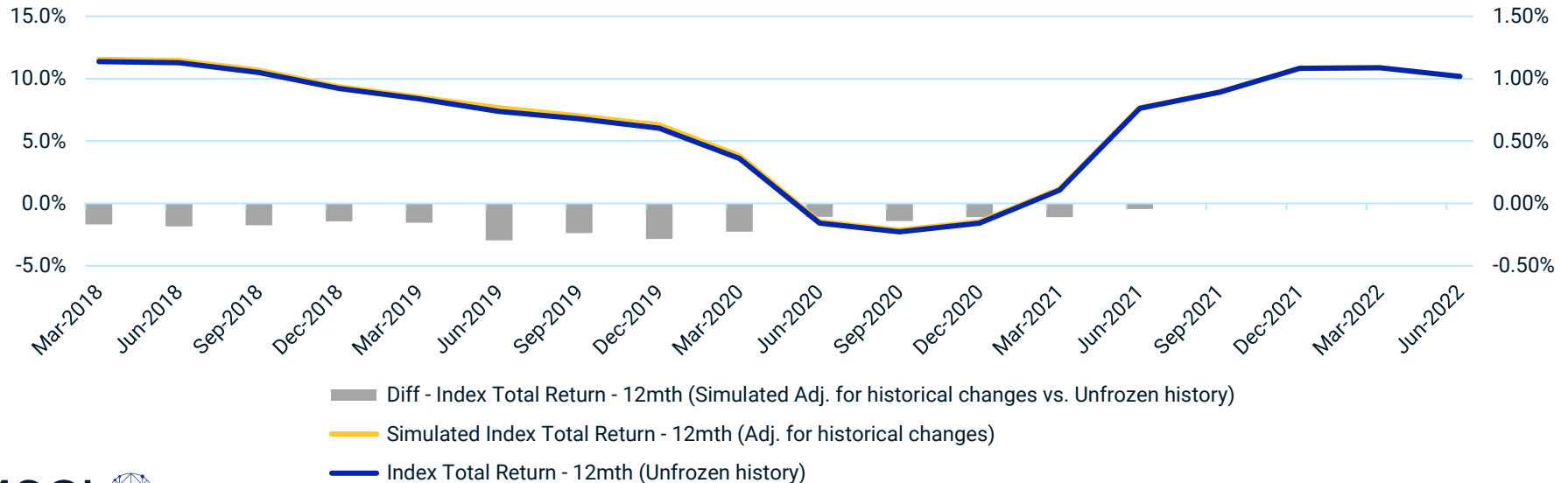
- **Proposal:**

- To freeze full history of the Core Wholesale Property Index as of December 2022
- With the release of December 2022 results, index to be frozen each quarter



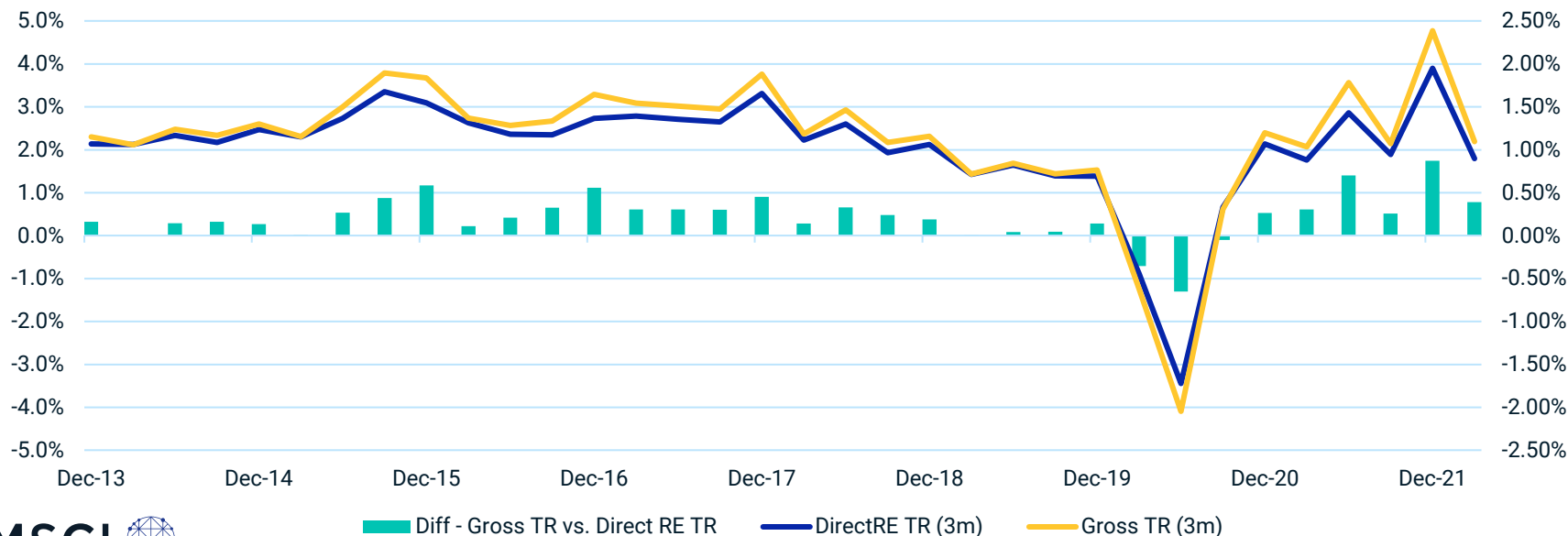
# Simulated Results – Assessment of historical data changes to Property index

- **Simulated Results:** Property Index return (12 month) adjusted for historical data changes since index launch in December 2017
  - No period in history (since index launch) has a material difference in Total return (12mth) due to historical data changes



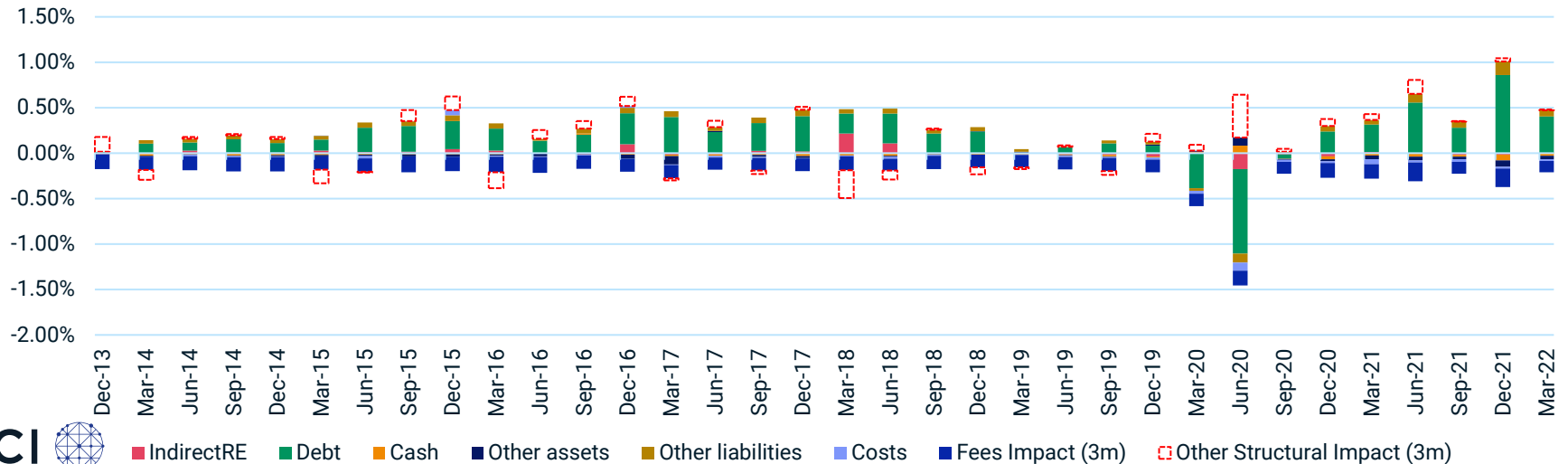
# Fund Reconciliation – Australia Core Wholesale Funds

- Fund reconciliation analysis attributes the differences between Direct real estate return and NAV return (pre-fee), by assigning impact to each financial layer in the fund
  - Data for performing 12mth fund reconciliation analysis is available starting 2014



# Fund Reconciliation - Attribution (Quarterly)

- Leverage impact, a key driver of fund performance through history
- 12mth Other structural impact (Residual) at index level is less than 50bps for all periods, except Jun-20
  - For some quarters, a review is in progress to assess further improvements to the quality of reconciliation
  - MSCI to do a client outreach, where required, between Nov-22 & Jan-23
  - EA product based on frozen methodology will also include fund reconciliation analysis based on frozen methodology



# Discussion Points

## PFI Sub-Indexes

1. Do you agree with the proposal to introduce sub-indexes of MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index, to be based on frozen methodology?
2. Do you agree with the proposal to freeze the history of sub-indexes retrospectively to align with the freezing point of Total return (post-fee) for the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index?
3. Do you agree with the proposal to introduce all the measures reported in market information products to be based on frozen methodology, to align with MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index?

# Discussion Points

## Property Index

1. Do you agree with the proposal for The Property Council of Australia/MSCI Australia Core Wholesale Annual Property Index (Unfrozen) Published quarterly, to be based on frozen methodology?
2. Do you agree with proposal to freeze full history of The Property Council of Australia/MSCI Australia Core Wholesale Annual Property Index (Unfrozen) Published quarterly, with the release of December 2022 index results?

# Appendix I

# Freezing history of PFI Sub-Indexes

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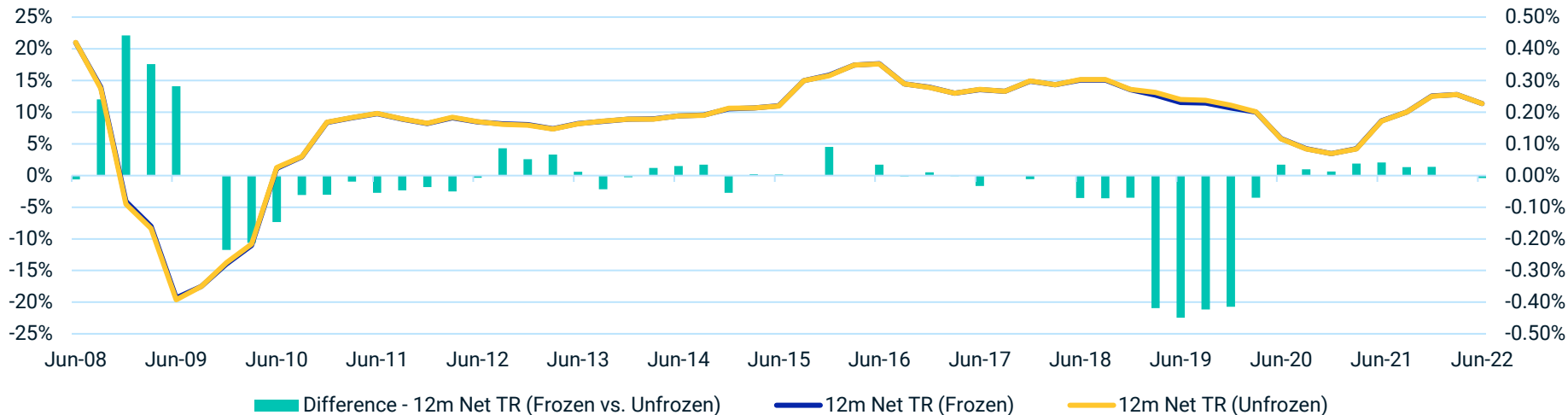
COMPARISON OF THE 12MTH TOTAL RETURN



# Proposal to Freeze History of Sub-Indexes in PFI

## Office Sector – Net Total Return – Frozen history vs. Unfrozen history

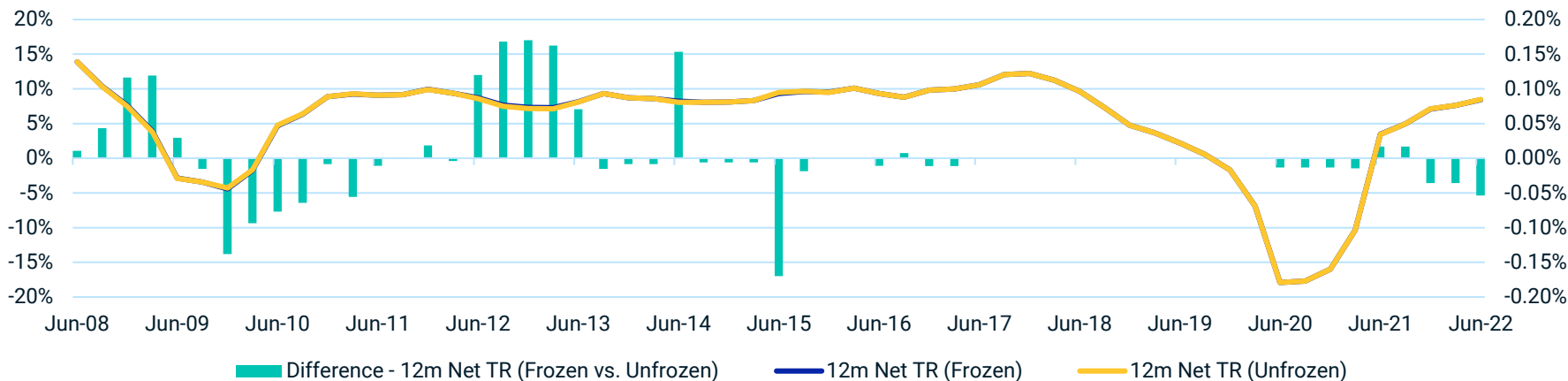
- **Simulated Results:** Comparing the Net Total Return of Office sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - Rolling 12mth return for periods during 2019/20 & 2008/09 would see a difference of over 40bps to Office sector sub-index



# Proposal to Freeze History of Sub-Indexes in PFI

## Retail Sector – Net Total Return – Frozen history vs. Unfrozen history

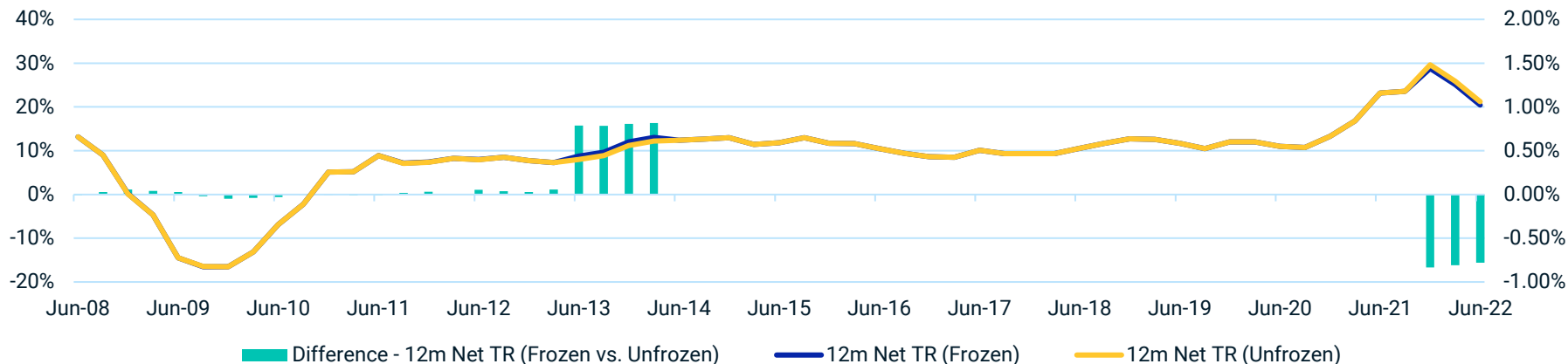
- **Simulated Results:** Comparing the Net Total Return of Retail sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - Maximum difference to rolling 12mth return would be for periods during 2012/13 & 2014/15, with a difference of over 15bps to Retail sector sub-index



# Proposal to Freeze History of Sub-Indexes in PFI

## Industrial Sector – Net Total Return – Frozen history vs. Unfrozen history

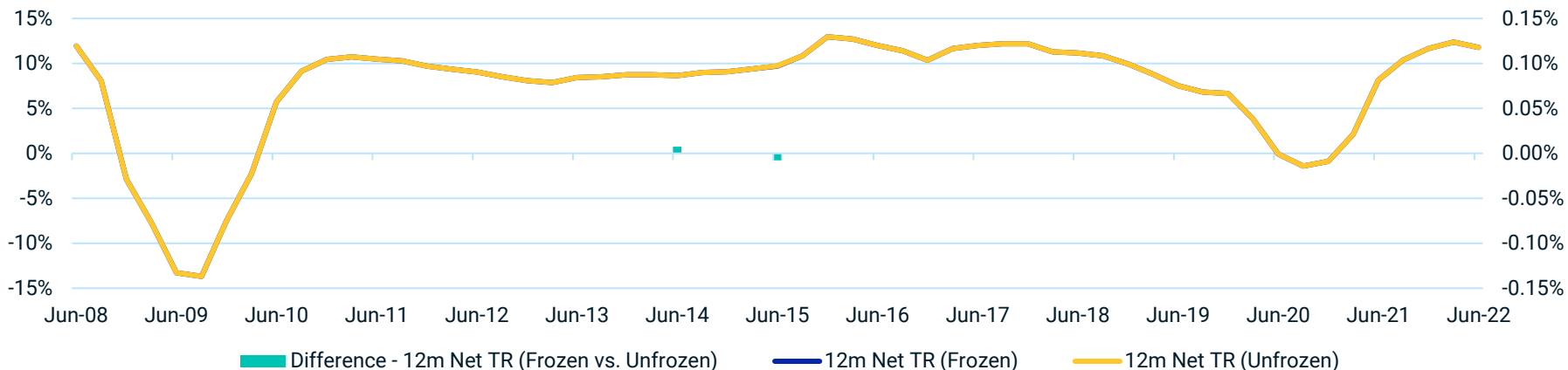
- **Simulated Results:** Comparing the Net Total Return of Industrial sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - Maximum difference to rolling 12mth return would be for periods during 2021/22 & 2013/14, with a difference of over 50bps to Industrial sector sub-index



# Proposal to Freeze History of Sub-Indexes in PFI

## Sector Diversified – Net Total Return – Frozen history vs. Unfrozen history

- **Simulated Results:** Comparing the Net Total Return of Diversified sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference would happen to the rolling 12mth return of Diversified sector sub-index



# Appendix II

## Freezing history of Sub-Indexes

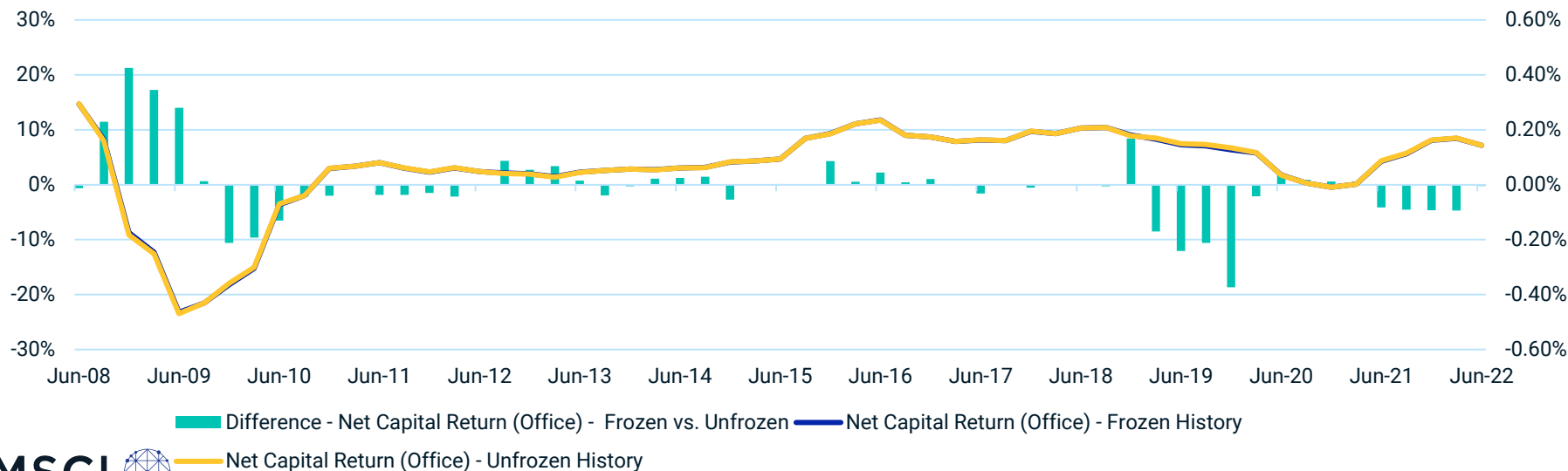
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DIFFERENCE TO THE 12MTH CAPITAL RETURN & INCOME RETURN

# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Office Sector – Net Capital Return (12mth)

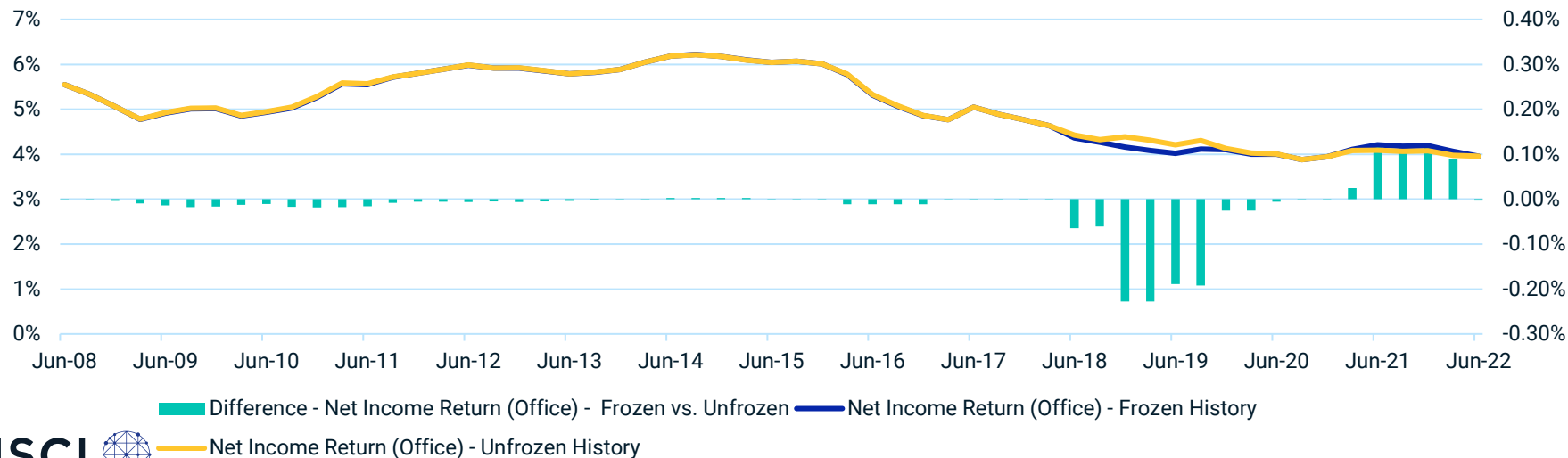
- **Simulated Results:** Comparing the Net capital return of Office sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the capital return of office sector sub-index



# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Office Sector – Net Income Return (12mth)

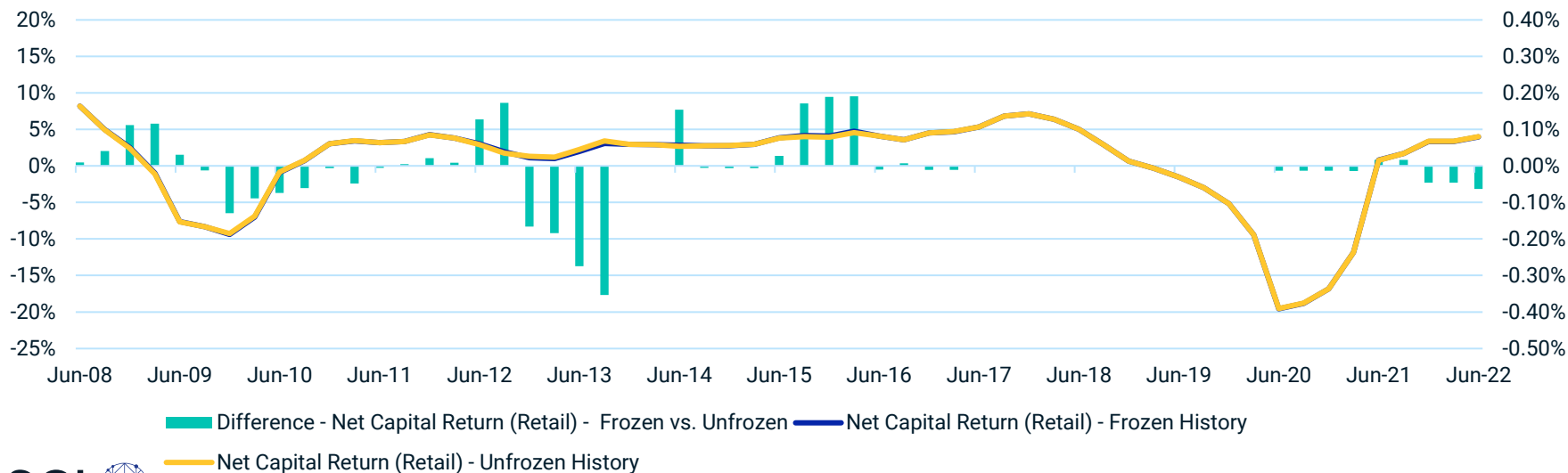
- **Simulated Results:** Comparing the Net income return of Office sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the income return of office sector sub-index



# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Retail Sector – Net Capital Return (12mth)

- **Simulated Results:** Comparing the Net capital return of Retail sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the capital return of retail sector sub-index

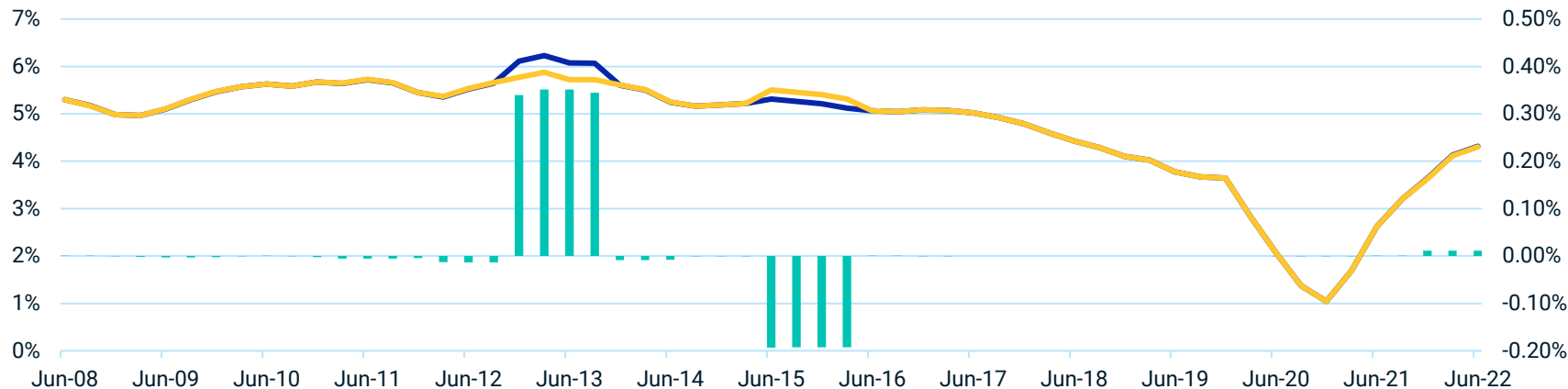




# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Retail Sector – Net Income Return (12mth)

- **Simulated Results:** Comparing the Net income return of Retail sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the income return of retail sector sub-index



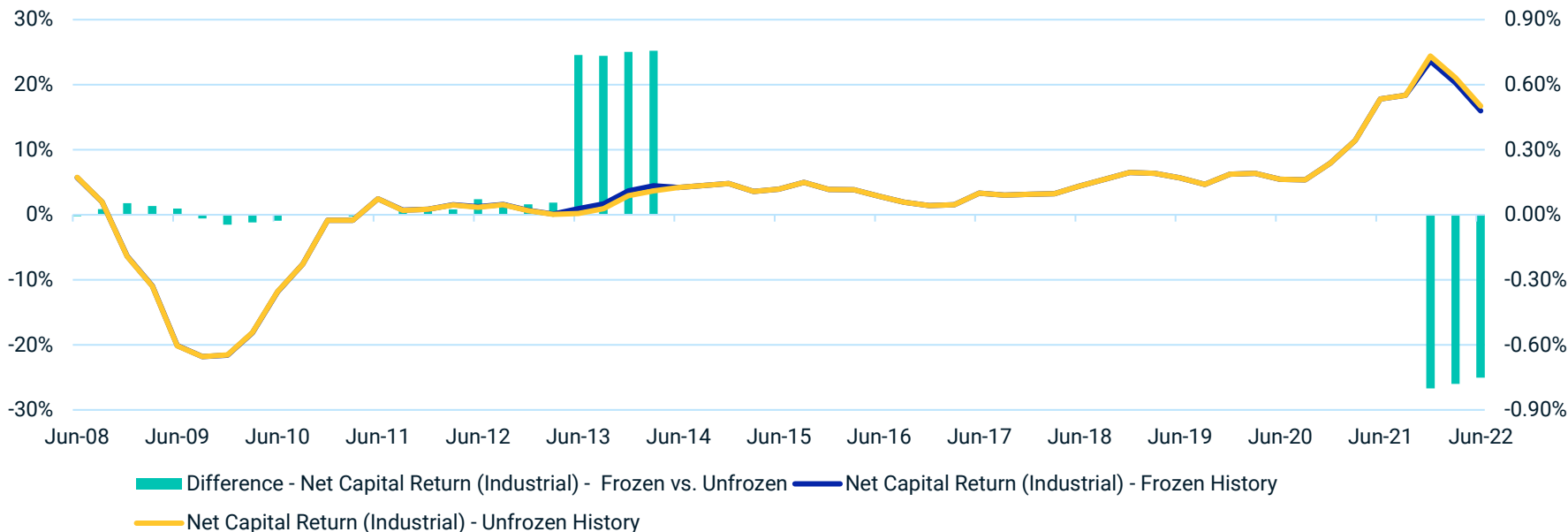
■ Difference - Net Income Return (Retail) - Frozen vs. Unfrozen ■ Net Income Return (Retail) - Frozen History

■ Net Income Return (Retail) - Unfrozen History

# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Industrial Sector – Net Capital Return (12mth)

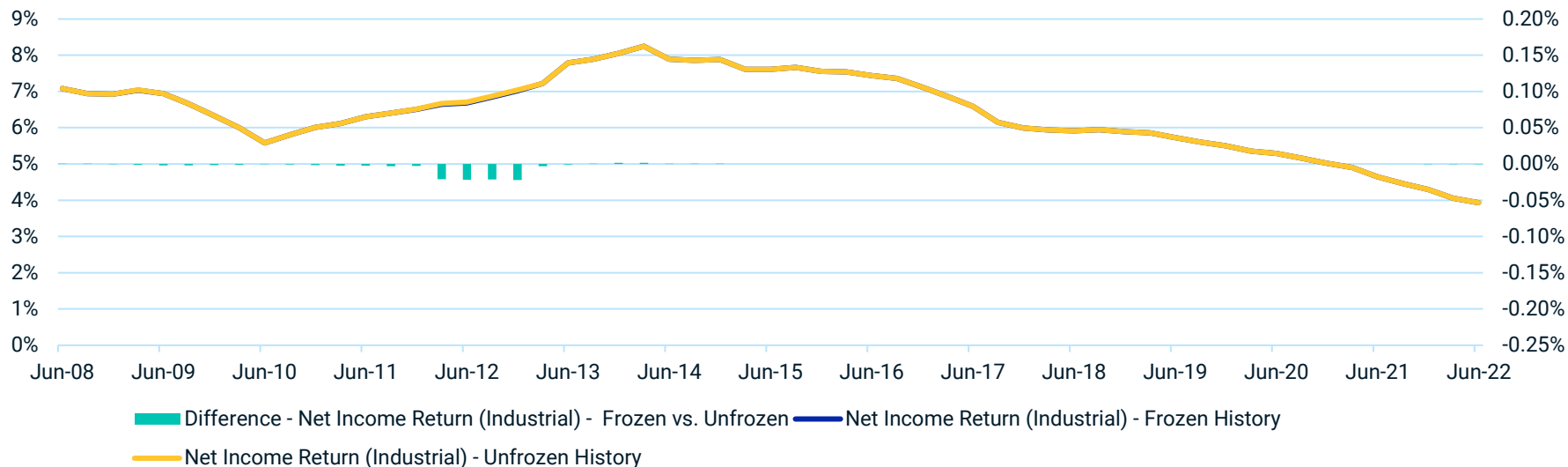
- **Simulated Results:** Comparing the Net capital return of Industrial sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - Material difference expected to the capital return of industrial sector sub-index for 12mth return during 2021/22 & 2013/14



# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Industrial Sector– Net Income Return (12mth)

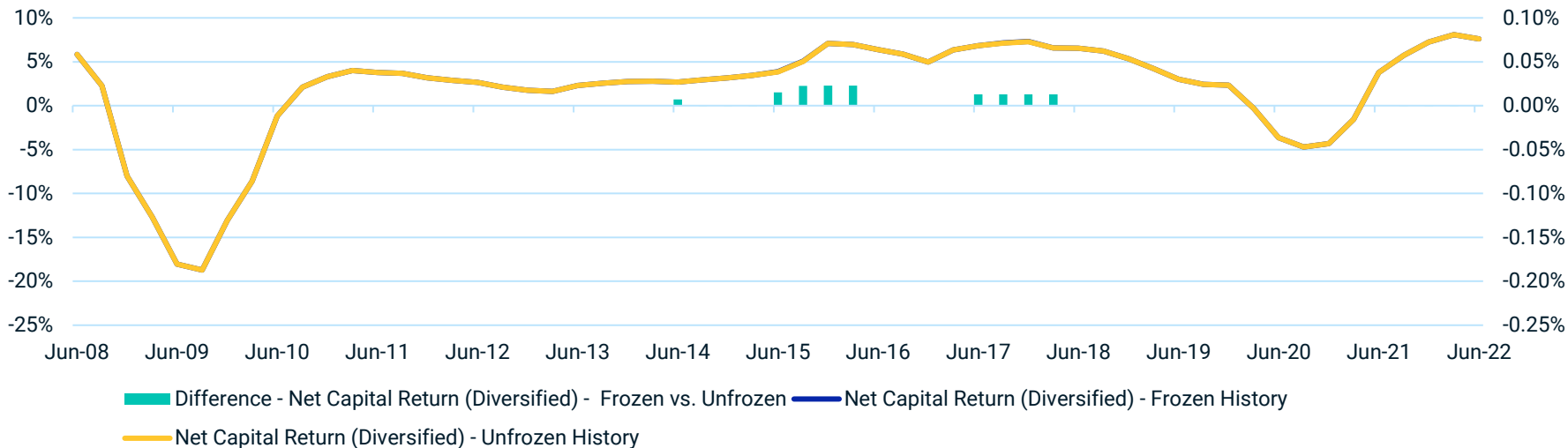
- **Simulated Results:** Comparing the Net income return of Industrial sector sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the income return of industrial sector sub-index



# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Sector Diversified – Net Capital Return (12mth)

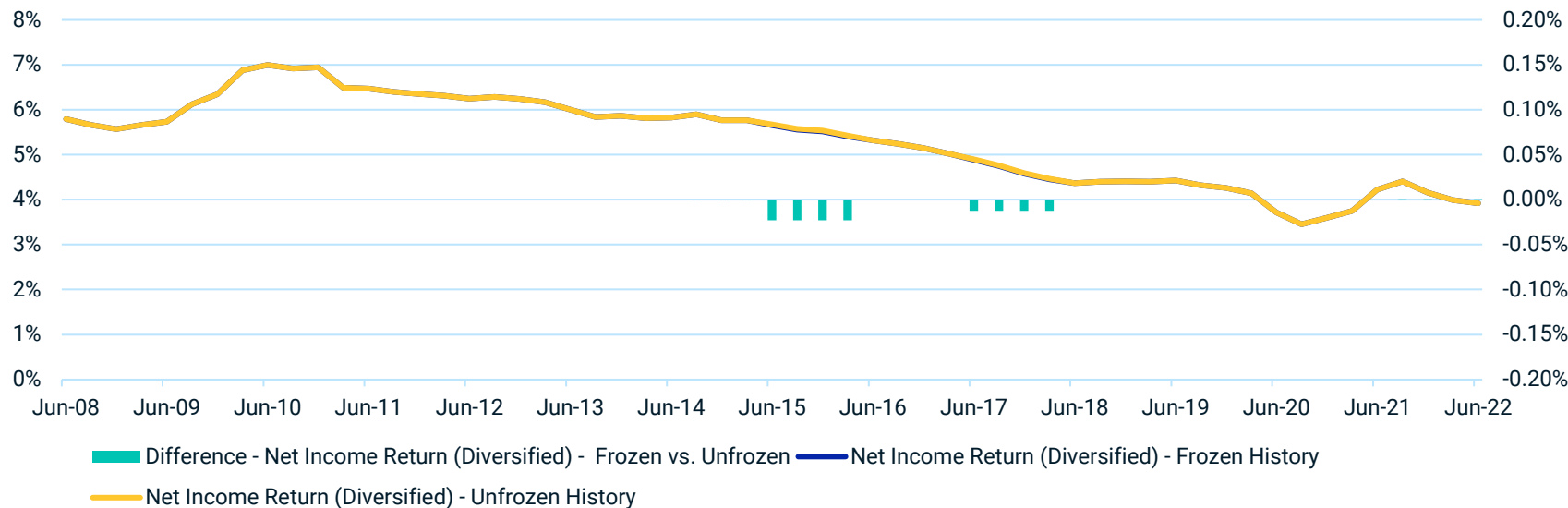
- **Simulated Results:** Comparing the Net capital return of sector Diversified sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the capital return of sector diversified sub-index



# Freezing History of Sub-Indexes in PFI | Simulated Impact Analysis

## Sector Diversified – Net Income Return (12mth)

- **Simulated Results:** Comparing the Net income return of sector Diversified sub-index based on unfrozen methodology (as published in digest) with the return based on frozen methodology (as proposed)
  - No material difference expected to the income return of sector diversified sub-index



# PFI Sub-Indexes to be based on Frozen methodology

## Market Information Product (PFI)

Frozen  
Methodology  
(No change  
proposed)

Core Funds (Standard Index)

Core Funds  
(targeted gearing  $\leq 40\%$ )

Introduce Sub-  
Index Series in  
Market  
Information  
Product based  
on Frozen  
index  
methodology

Office  
specialist  
funds

Retail  
specialist  
funds

Industrial  
specialist  
funds

Diversified  
funds

Gearing  
0-10%

Gearing  
10-20%

Gearing  
>20%

Office  
specialist  
funds

Retail  
specialist  
funds

Industrial  
specialist  
funds

Diversified  
funds

Based on sector allocation

Based on leverage

Based on sector allocation

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