

Navigating Challenging Markets with **MSCI's Index Solutions**



This is an
interactive brochure

MSCI



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Introduction

As 2023 began, investors were anxious about inflation and a potential recession in the latter part of the year. However, contrary to expectations, inflation subsided, and the economy stayed resilient. Interest rates did go up, but they seem to have peaked, and markets expect rates to start coming down in 2024.

We enter 2024 with the prospect of moderate economic growth and easing inflation. But despite the positive sentiment of equity markets and the bond market recovery in Q4, geopolitical risks and macroeconomic uncertainties have not yet abated.

Our focus remains collaborating closely with clients to deliver robust solutions and in-depth research that directly supports investment objectives.

MSCI in Numbers



1,500+ equity and fixed income ETFs tracking MSCI indexes¹



Over **290,190** indexes calculated daily²



USD **14.9 trillion** in assets under management are benchmarked to MSCI indexes³



453 Research experts, with **122** dedicated to Index Research and Product Development⁴



Over **419** professionals dedicated to Index Production⁵

¹ As of September 30, 2023

² Index count at a variant level, includes one currency per variant. Data as of November 30, 2023.

³ Assets under management as of June 30, 2023, reported on or before September 30, 2023, using data from eInvestment for active institutional funds and Morningstar for active retail funds. Equity ETF values were based on data from Refinitiv and MSCI.

⁴ As of January 31, 2024

⁵ As of November 30, 2023

Navigating an Uncertain Macro Environment



Inflation was a major concern for investors as we arrived in 2023, given what had been observed in the markets during the post-covid recovery years. The MSCI **Inflation Sensitive Indexes**, introduced in 2023 served as a tool to tackle this issue, leveraging the Inflation-Sensitivity Scores, as provided by MKT MediaStats. [MSCI research](#) explored the use of inflation sensitivity scores to construct hypothetical portfolios that would respond to hikes in inflation.

The MSCI **Economic Regime Allocator Indexes**, were created to equip investors with innovative allocation tools for navigating through macroeconomic cycles (goldilocks, slow growth, stagflation, heating up):

- **Economic Regime Sector Allocator Indexes:** allocate between cash and sector indexes.
- **Economic Regime Asset Allocator Index:** allocate between cash, treasury and sector indexes.

The four economic regimes and their calculation use QuantCube's GDP Growth and Inflation Indicators.

By leveraging these indexes, investors may adjust their asset allocations to align with their individual objectives, thereby potentially enhancing their overall investment strategy.



Sustaining Momentum on Action on Climate



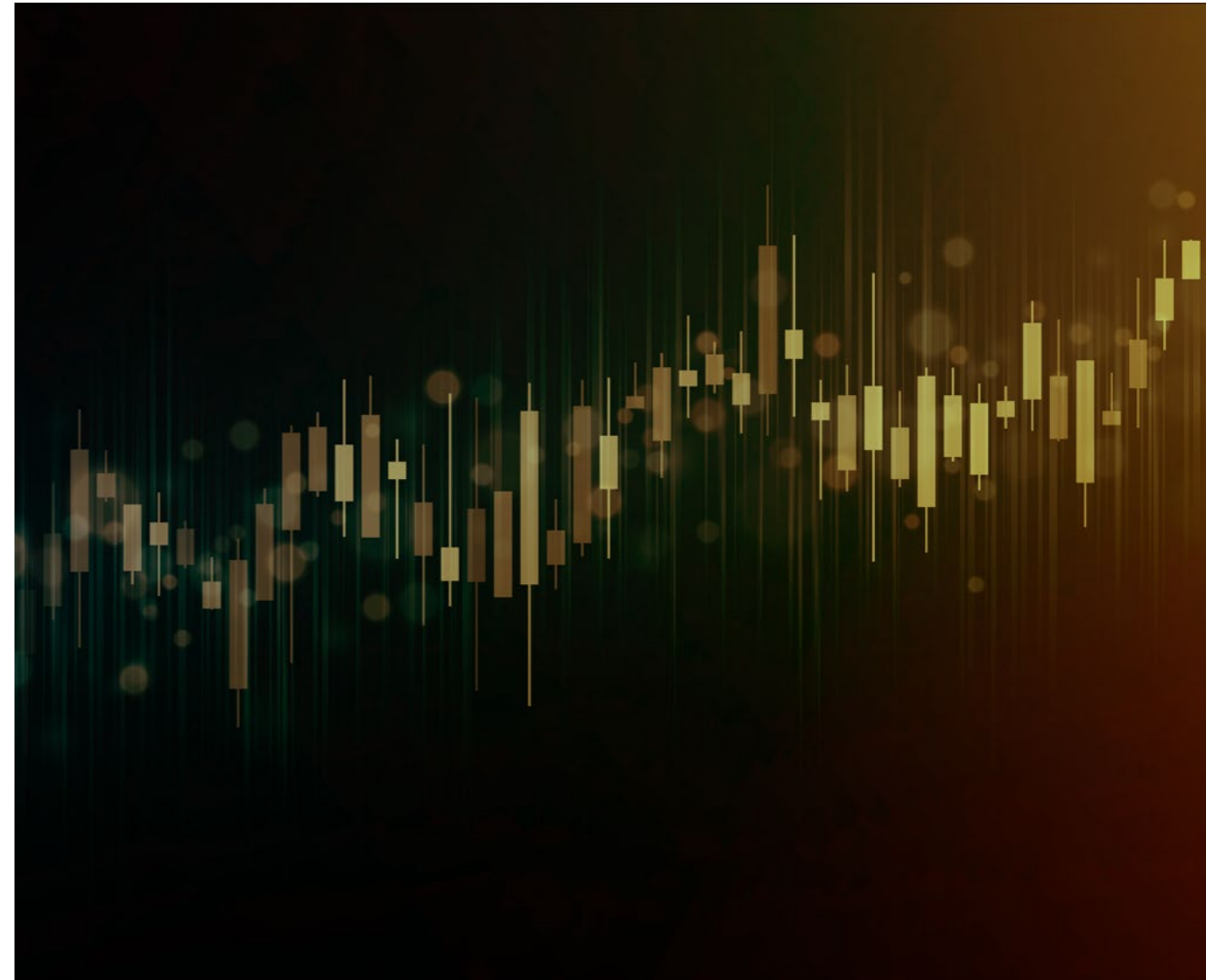
We remain committed to empowering investors in their climate transition journey.

In response to client demand, 2023 saw the expansion of MSCI's range of Lower Carbon Target and ex-Fossil Fuels indexes.

Moreover, the implementation of the Climate Action methodology for fixed income, along with the launch of Climate Action Corporate Bond Indexes for USD Investment Grade and EUR Investment Grade, equipped investors with solutions to incorporate climate considerations into their portfolios across different asset classes.

At the same time, many investors are seeking technological solutions to climate change challenges. The launch of new thematic indexes that seek to capture those innovations and make them more accessible to a broad investment audience includes:

- **Hydrogen and Future Fuels Indexes**, which aim to represent the performance of a set of companies that are associated with the development of new products and services focused on future sources of energy production and technologies for energy efficiency.
- **Extreme Weather Industrial Solutions Indexes**, which aim to represent the performance of a set of companies associated with products and services used in day-to-day life to cope with extreme heat or cold.



Retaining a Long-Term Focus for Investments



When markets are volatile and events are uncertain, it is important to retain a long-term focus. The expansion of our thematic range supports investors who are forward-looking and emphasizes trends expected to unfold gradually.

As populations age and live longer, and technology advances at a rapid pace, investors are looking for opportunities in the area of Health. The three new index families below play a pivotal role in addressing this demand:



Biotech Advance Indexes, aiming to represent the performance of a set of companies that are associated with research, development, and commercialization of products for treating a broad range of diseases and disorders.



Virology Indexes, aiming to represent the performance of a set of companies that are associated with research and development into, as well as the commercialization of anti-viral and vaccine products, which are used to treat a range of infectious diseases.



Immuno-oncology Indexes, seeking to represent the performance of a set of companies that are associated with research, development, and commercialization of products for cancer immunotherapy, also known as Immuno-oncology.

As more and more companies use digital channels to promote, sell and even customize their products, the need to address and minimize cybersecurity risks is a priority. To help investors seeking to capture this long-term trend, the **Smart Security & Defense Indexes** were launched to represent the performance of companies that are associated with the development of new products and services in the areas of Cybersecurity and Future Defense and Smart Borders.

Post-covid, deglobalization trends intensified, and companies globally are rethinking their supply chain and what that will mean from a logistics and operational perspective. As this happens, new products and services are coming on stream to help companies gain control of their logistics strategy. MSCI's **Future Logistics Indexes** aim to represent the performance of a set of companies that are associated with the development of new products and services focused on the logistics value chain.



Enhancements to Our Core Methodologies and Products



As part of our ongoing commitment to continue to evolve and improve our coverage of global markets, we delivered several enhancements to our flagship equity index families:

Introduction of a quarterly comprehensive rebalance frequency

- From the February 2023 index reviews, MSCI transitioned to a comprehensive schedule for the quarterly reviews of its market cap indexes following a consultation with market participants. This change reflects our commitment to listen to market participants and more effectively respond to ever changing markets.
- This new rebalance frequency was designed to reduce the size of any individual quarterly rebalance by spreading index review changes and turnover more evenly, with the aim to keep replication costs low for investors.

Expansion of the investment universe

- Based on feedback from market participants, we enhanced our Frontier Markets methodology to address issues linked to limited coverage, concentration and turnover.
- Launch of the Baltic States and Latvia indexes. Starting from August 2023's index Review, MSCI considers Estonia, Lithuania and Latvia as a single market for the purpose of index construction.
- The expansion of our investment universe will help those investors looking for opportunities further afield, while ensuring that the data quality and coverage remains at a high standard.

In March 2023, MSCI implemented the changes that followed the bi-annual Global Industry Classification Standard (GICS®) review and were announced a year earlier. The biggest changes were in the Financials and IT sectors, and these were also reflected in MSCI sector indexes across countries and regions later in the year.



Enhancements to Our Core Methodologies and Products



While our core index offering focuses on the international investor, we are also attentive to the domestic investor's needs. An example of this was the launch of a new market-cap index series: the MSCI Australia Listed Indexes. By including eligible foreign-incorporated entities listed on the Australian Securities Exchange (ASX), the MSCI Australia Listed Indexes aim to provide a comprehensive coverage of Australia's domestic investable universe and serve as a de facto measure of the Australian economy.

We continue to make great strides in our fixed income offering in our effort to better serve our clients who are looking for best in class multi-asset investment opportunities:

Inclusion of government bonds

MSCI's Fixed Income modules now cover government bonds denominated in US Dollars (USD), British Pounds (GBP), Euros (EUR) or Canadian Dollars (CAD), in addition to coverage of the investment grade and high yield space..

Launch of fixed income market classification framework

The finalization of our fixed income market classification framework builds on our long-standing equity classification heritage, and it brings in the specificities of the asset class. It will be a robust foundation for new index launches for many years to come.

Inclusion of fixed income attribution file

To provide our clients with a deeper perspective on index composition and exposures, additional data for various attribution buckets such as country, region, credit rating, maturity and sector classification have been included. This will help clients address their performance attribution and risk management needs, as well as for trading and hedging purposes.

Expansion of the Fixed Income Tradable Bond Index range, in collaboration with MarketAxess

In addition to the USD HY index, three new MSCI MarketAxess Tradable Corporate Bond Indexes were introduced: USD IG, EUR IG, and EUR HY. These indexes have been designed with a focus on liquidity and versatility, making them a valuable tool for both replication and hedging purposes in the credit market.



New Investor Tools



Our **MSCIOne platform** continued to grow and incorporate new tools and MSCI services. In 2023, we saw the arrival of new critical tools:



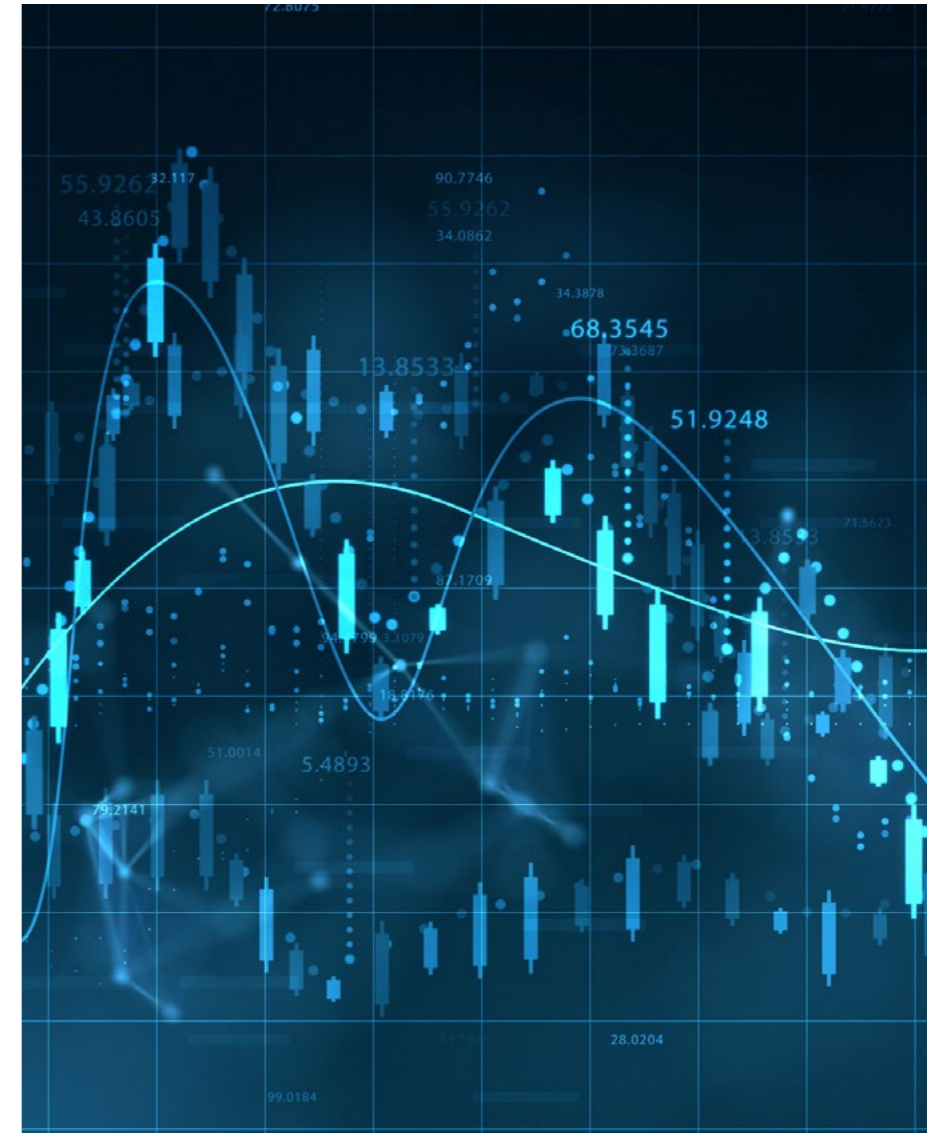
Client Upload tool: As the adoption of client-designed/custom indexes evolves, investors need ways to effectively communicate changes in their needs. This tool will facilitate the addition and validation of exclusion lists to client-designed indexes.

On our public website, we added a new feature that will help investors identify what **ETPs are linked to MSCI indexes**. It also covers futures & options, so as to enable a full ecosystem perspective of financial products linked to MSCI indexes.

Reinvigorating our Infrastructure

We continuously work to improve our infrastructure to ensure our index and data delivery remains robust. To that effect, we announced an extension of our **partnerships with Google and Microsoft** which will enable us to gain further resilience and set us up on a strong path for future growth.

These strengthened foundations will serve us well, as our index offering grows from indexes, to data, to solutions and tools.



Broadening Our Data Toolkit



MSCI's Float Data Product, which was launched in early 2023, provides additional transparency to metrics associated with free float market capitalization at a security level.

Free float market capitalization is one of the inputs in the construction of MSCI indexes. As such, this data product is relevant to investment teams involved in the management of index strategies and products. This [piece](#) will help you learn more about this product, the data it covers and how it can help investors better understand the markets they operate in.

To help our clients better navigate their regulatory reporting requirements, MSCI added index levels information covering **Sustainable Finance Disclosure Regulation (SFDR) and EU Benchmarks Regulation (BMR)** metrics in several of our index modules:

- MSCI Enhanced Module for standard market cap, factor and ESG indexes
- MSCI ESG Modules for standard ESG & climate Indexes
- MSCI Fixed Income Modules for standard fixed income indexes

In [this document](#), you can see the full detail on the topics covered, which range from ESG scores to climate metrics, such as carbon footprint and green revenues.

Engagement, along with capital allocation, is a key lever for institutional investors pursuing net-zero targets. Our most recent climate metrics innovation, [the MSCI Climate Engagement Toolkit](#), helps clients to quickly identify which companies are prime candidates for engagement and be more efficient in their outreach.

Clients who license our ESG or climate indexes, including our Climate Action Indexes, will automatically receive the insights as part of their index data at no additional cost.



Clarity Through Research

Underlined by precision and objectivity, our timely research insights are designed to allow investors to act with greater confidence. In 2023, nearly 300 research papers, blogs and podcasts were delivered, covering a wide range of topics linked to market themes and investor challenges.

Our Emerging Markets (EM) series seek to help investors understand how, and why, this group of countries can be positioned to deliver potential returns to investors. It also looked at how investors' EM allocation may evolve, and even how commercial relationships between markets may be changing in this new deglobalization era.

As concerns about a potential slowdown globally started to take hold, investors needed to look further ahead, and our Small Caps research came into focus. Our research looked at how small-cap firms have historically performed versus larger ones, especially after recessions and over longer holding periods.

On the podcast front, we expanded our range to include the Investment Trends in Focus Quarterly Roundtable. This new forum brings together multiple experts from MSCI to comment on markets, and market-moving events to help institutional investors as they determine the best way forward. This complements the long running Markets in Focus, which throughout the year covered topics like how US bonds may be looking more attractive than US stocks and how interest rate hikes have historically impacted market performance.



The depth and breadth of MSCI's expertise was again visible in the range of presentations and topics covered in our annual institutional forum. This annual forum gathers investors from around the world to exchange ideas on tactical and strategic investment topics.





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About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

To learn more, please visit www.msci.com

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