

# MSCI Multi-Factor Indexes

A basis for implementing index-based multi-factor strategies – transparently and cost-effectively

Factor premiums were previously available only through active management. Now MSCI offers index investors a cost-effective basis for implementing multi-factor strategies.

MSCI Multi-Factor Indexes combine MSCI Factor Indexes into a single blended index. They are available as standard combinations provided by MSCI, or as a custom mix of factor indexes created and controlled by the client. Both approaches can be based on underlying flagship indexes such as MSCI EAFE, MSCI ACWI, MSCI World and MSCI Emerging Markets.



“MSCI Factor Indexes offer new ways of expressing

a range of investment views. They provide a ‘codification’ of factors that have been identified as drivers of risk and return in portfolios.

Employing these factors requires a rigorous analytical framework. Otherwise, it is easy to become distracted by noise or data sampling.”

**Baer Pettit**

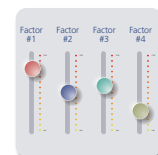
Global Head of  
MSCI Index Business  
FT, November 2013

## MSCI-Designed Multi-Factor Indexes

Aim to represent – through a transparent rules-based approach – the risk/return performance characteristics of active factor strategies that have historically provided a long-term risk premium.

## Client-Designed Multi-Factor Indexes

Enable clients to design their own mix of MSCI Factor Indexes and dynamically manage it over time, with insight from IndexMetrics, MSCI’s new analytical tool.



MSCI Multi-Factor Indexes integrate seamlessly across the entire MSCI index family, potentially resulting in reduced turnover compared with using separate indexes from other providers. MSCI indexes are used to benchmark approximately USD 7.5 trillion of assets worldwide<sup>1</sup>.

## MSCI: a pioneer in factor indexing

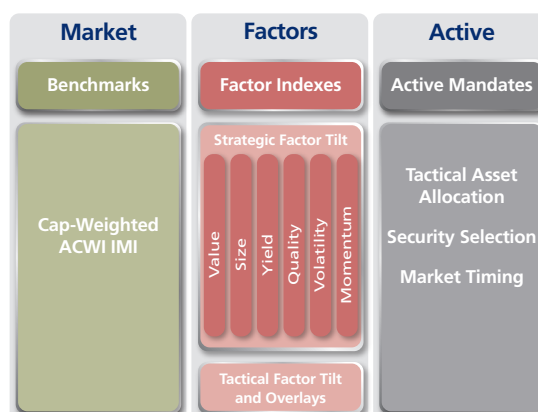
Factor indexes represent the return of factors that have historically earned a persistent premium over long periods of time.

MSCI launched the industry’s first Minimum Volatility index in 2008, followed by an extensive suite of other factor indexes that provide investors with a basis for implementing a cost-efficient, passive approach to seeking the extra returns historically associated with active factor-based strategies.

## Both factor indexes and market cap indexes play important roles in asset allocation

Factor indexes can help tilt a portfolio towards factors that have historically outperformed market cap benchmarks.

Market cap indexes can be used to implement a macro consistent, buy-and-hold investment strategy aiming to capture the long-term equity risk premium with structurally low turnover, very high trading liquidity and investment capacity.





“Investors need a reliable, standardized approach to

designing multi-factor indexes and assessing whether they meet their objectives against market cap weighted indexes.

They should take three things into account when selecting a factor index:

- 1 Objectives and expectations about market performance
- 2 Diversification potential of factors
- 3 Investability and capacity constraints.”

#### Remy Briand

Global Head of  
MSCI Index Research

#### MSCI IndexMetrics analytical tool

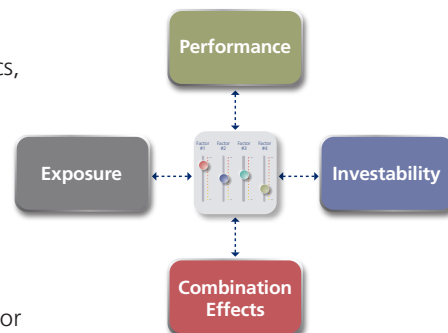
Index experts at MSCI have developed MSCI IndexMetrics, an analytical tool to help clients evaluate individual factor indexes and their combinations.

#### MSCI thought leadership

MSCI recently published three research papers about factor-based investing, which include various use cases for factor indexes by institutional investors considering factor allocations. Those papers are available online:

- » Foundations of Factor Investing
- » Deploying Multi-Factor Index Allocations in Institutional Portfolios
- » MSCI Index Metrics – An Analytical Framework for Factor Investing

Learn more at [www.msci.com/factorindexes](http://www.msci.com/factorindexes)



**MSCI**

MSCI Inc. is a leading provider of investment decision support tools to investors globally,

including asset managers, banks, hedge funds and pension funds. MSCI products and services include indexes, portfolio risk and performance analytics, and governance tools. The company's flagship product offerings are: the MSCI indexes with approximately USD 7.5 trillion estimated to be benchmarked to them on a worldwide

basis<sup>2</sup>; 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; ISS corporate governance research, data and outsourced proxy voting and reporting services; and FEA valuation models and risk management software for the energy and commodities markets.

1 Previously named MSCI Risk Premia Indexes.  
2 As of March 31, 2013, as reported on July 31, 2013 by eVestment, Lipper and Bloomberg.