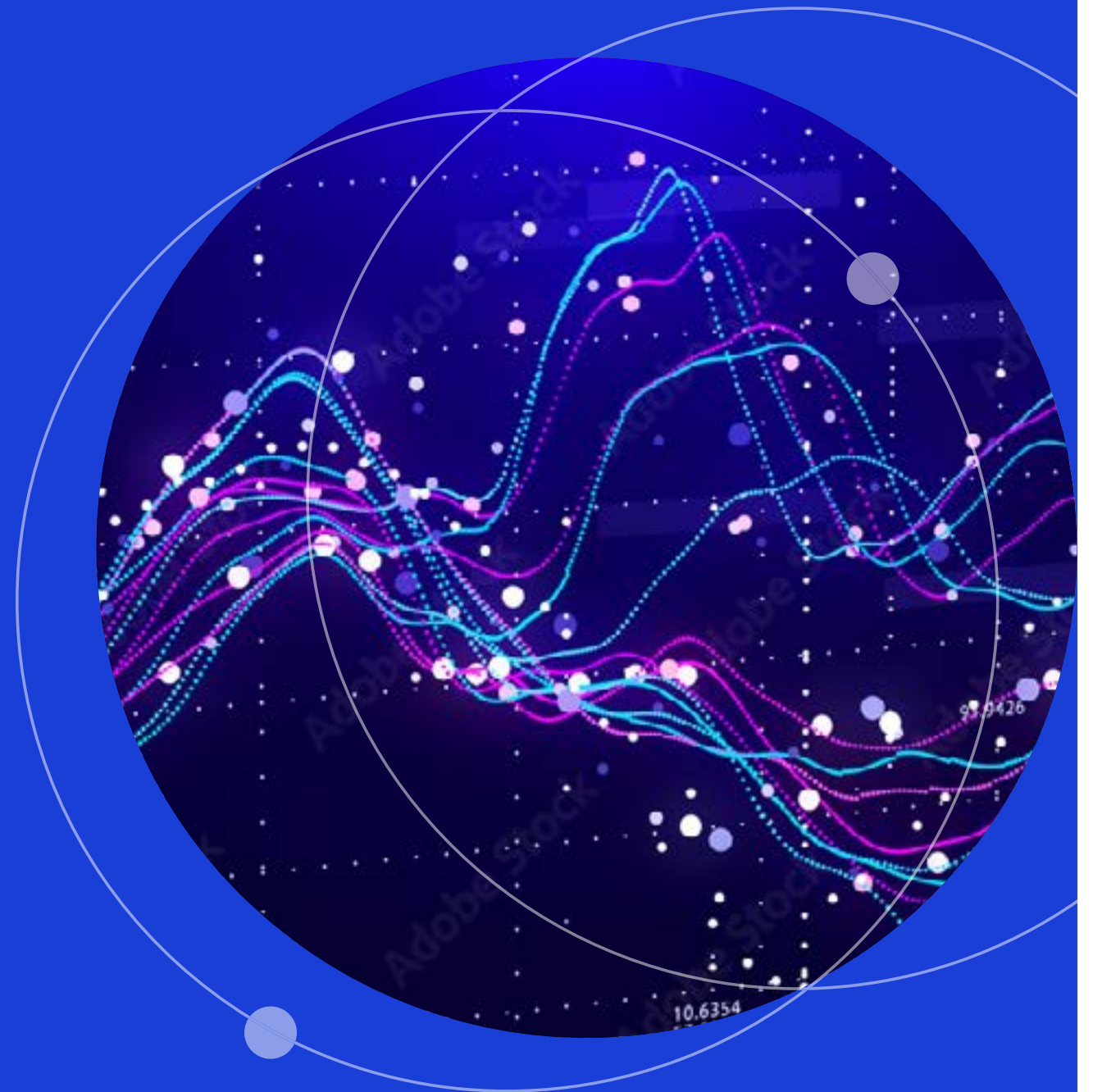




MSCI Core Multiple-Factor Indexes

Targeting the “sweet spot” on the active risk spectrum

May 2025



Why multi-factor investing?

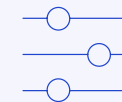
Style factors — such as value, quality and momentum — have historically delivered long-term excess returns over the broad market. Individual factor performance, however, can be cyclical and lag over shorter periods due to their sensitivity to changing macroeconomic conditions and market dynamics.

To offset this cyclical, investors have increasingly turned to multi-factor strategies — combining multiple, less-correlated factors through a multi-factor index — to seek better risk-adjusted returns.

The number of multi-factor index offerings has grown considerably in recent years. Investors have more to choose from, but face several challenges when integrating these indexes into portfolios, including:



Deciding on the number and type of factors to use.



Selecting underlying factor descriptors.



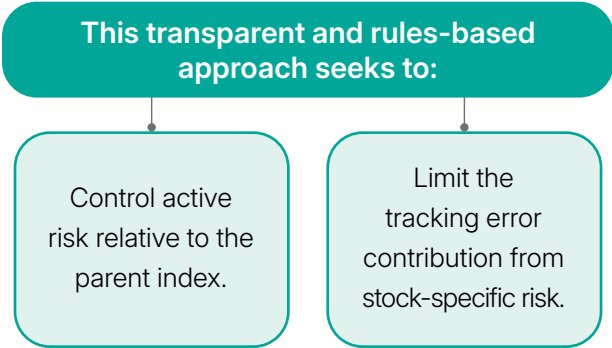
Choosing an appropriate index construction approach.



Managing related risks.

Modern Factor investing. Designed for consistency.

The MSCI Core Multiple-Factor Indexes are designed to provide investors with clear, balanced, and efficient exposure to multiple style factors. These indexes are based on an optimized, bottom-up methodology, targeting equal-weighted exposure to the value, quality and momentum factors.



The indexes aim to deliver a higher proportion of active return from exposure to style factors that have historically delivered long-run return premia. By focusing the active risk budget on compensated factors, this approach seeks to help investors stay true to their desired exposures and avoid the noise of unconstrained or overly complex factor mixes.

In essence, the MSCI Core Multiple-Factor Indexes are designed to target the “sweet spot” on the active risk spectrum, seeking to deliver a more consistent and focused factor exposure than unconstrained multi-factor approaches, with modest and more-consistent active risk.



Analyst sentiment: A differentiated signal for momentum

A standout feature of the MSCI Core Multiple-Factor Indexes is the refined definition of momentum, enhanced with Analyst Sentiment, a forward-looking signal based on changes in analyst estimates.



Differentiated
An innovative approach
to momentum investing



Robust
Strong associated
historical return premium



Diversifying
Low correlation to
traditional price momentum
and other factors

Experience the power of core multiple-factor indexes

The MSCI Core Multiple-Factor Indexes are structured to balance exposure and control. They are designed to target a lower tracking error versus the parent index than unconstrained multi-factor approaches, and to help investors stay closer to their benchmark while still capturing factor-driven returns.

The MSCI Core Multiple-Factor methodology seeks:

Consistent tracking error, targeting 2%, supporting consistent risk alignment through varying market conditions.

Beta targeting of 1.0 (between 0.98 - 1.02) to isolate factor performance from the noise of broader market movements.

Constrained ex-ante specific risk to focus on systematic sources of return while managing unintended, idiosyncratic risks.

Analyst Sentiment signal within momentum as a differentiated investment factor with low correlation to other factors.

Lower volatility and higher Sharpe ratios to deliver more stable returns with better risk-adjusted performance.

How MSCI Core Multiple-Factor Indexes can be used

These indexes can be used to help capture factor premiums, implement passive investment strategies, enhance diversification, improve risk-adjusted returns and gain flexibility in managing portfolios based on investor specific objectives and investment beliefs.

Common use cases include:

Strategic portfolio benchmarking. Asset owners and CIOs can use indexes to anchor long-term asset allocation decisions as they offer a more tailored benchmark that reflects intended exposures.

Benchmarking or performance comparison of active strategies. Helps evaluate how well active managers or internal strategies are capturing intended factor exposures. A well-constructed multi-factor index serves as a clear, rules-based reference point.

Passive index product creation. Supports the development of ETFs or index funds that deliver diversified, factor-based exposure with controlled risk and consistent tracking error — making factor investing accessible at scale.

Historical regime analysis and backtesting. Helps evaluate a strategy's resilience, understand potential risks and return patterns, and make more informed allocation decisions by assessing how a multi-factor index would have performed across various market conditions.



Why MSCI?

MSCI helps clients build, implement and measure factor-based strategies through consistent and transparent factor frameworks. While factor investing is not new, MSCI Factor Indexes facilitate broader usage among more investors.

As a leader in the application of factors for over 50 years, beginning with Barra, MSCI invented a common language to explain risk and return through the lens of factors. MSCI Factor Index solutions were developed in consultation with the world's largest investors and with research backed by decades of factor data.

Experience and expertise

Over 55 years of indexing experience, with the scale and rigor of MSCI's global index platform

50 years of equity factor model research and innovation

Depth and breadth

Over 1,100 factor indexes, with more than USD 350 billion tracking MSCI factor index benchmarks¹

Over 70 equity factor models and over 100 multi-asset class models²

Proprietary MSCI Factor Classification Standard (FaCS) allows transparent factor analysis of any portfolio

Quality and innovation

Dedicated regional factor research and product specialists, focused on client service and engagement

Culture of continual evolution and innovation seeking better ways to build factor indexes

Want to learn more about our multi-factor indexes?

Reach out now

¹As of June 2024
²As of June 2024

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.

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