

Transcript

Expanding frontiers: MSCI & Nuam's vision for Latin America's emerging markets

Juan Pablo Córdoba: So, George, welcome to nuam on air in Santiago de Chile. Thank you very much for joining us. We're excited to have you here.

George Harrington: Thank you, Juan Pablo. Happy to be here.

Juan Pablo Córdoba: Great. We're going to talk about the index that we launched today. So, I wanted to just start by saying what does this mean for MSCI, this partnership with nuam and the launching of this new index.

George Harrington: This is a major, you know, major step forward for us, in our efforts, you know, in emerging markets, you know, in Latin America, the partnership that we've had with you, starting with BVC in Colombia, this obviously is a massive expansion. And we're incredibly excited. Obviously MSCI emerging market is a global benchmark. And this partnership really helps expand that effort, you know, into sort of some of the regional blocks where we're seeing very, very strong interest and very strong demand from our international investor community.

Juan Pablo Córdoba: Excellent, George. And how do you view this, in the direction for nuam, to enhance its global credibility? Is this a step in the right direction?

George Harrington: I think it's a huge step in the right direction. You know, I have been traveling recently over the last few weeks in New York and London. I think the index itself is going to take time in terms of investors understanding the combination of the countries that nuam index represents.

But I think what's much more important is the accessibility that nuam is going to provide. When you look at things like, rebalance, trades, the sort of speculative investments into the emerging markets having a more accessible block, and an index, that we can build around that in terms of financial products, absolutely is the area where, where I think the strongest demand is going to be. So, a major step forward. And I think that the development of the index or the interest in the index will be greatly accelerated by the development of financial products.

Juan Pablo Córdoba: Excellent, excellent, George. I'll follow up on that one. What in your view is the value to global investors? And I mean, we have this challenge of developing products that are tailored both to the international investment to the local investor. Are there the same pool of investors or the different, different types of investors? And how is this index potentially allowing us to further the participation of global investors?

George Harrington: I think they're different. I think that, you know, when we look at the larger pool of MSCI clients that are looking at the ACWI universe, there's such a huge development of the tradable markets around those, so ETFs, of course, on MSCI are massive.

I think there's right now over 2 trillion in total ETFs, ETFs assets out there tracking MSCI. The listed derivatives. You know, those have become, you know, incredibly active as well. And then of course into

other, you know, other SMAs and other type funds. So international investors have remained. I've always been very active and are continuing to be more so.

The onshore markets, I think that it will take a bit more time for development. So, you know, if we look at, the derivative markets that are in Colombia in Peru and Chile, you know, they're relatively early stage. The ETF markets are there. And obviously, you're extremely well aware of the success that we've had in Colombia an ETF product,

I think that's something that will infuse through the region over time. But international investors are going to look for products that they can easily employ into the market. And I think if we look at what's been happening in the EM block over the last few years, EM has become very, very large and almost used largely as a proxy for China.

That's definitely being unwound. People are trading EM ex China actively, in financial product form, both in ETF and derivative. MSCI India, MSCI Saudi Arabia. You know, a lot of these exposures have become very active. I think, that the nuam block really allows for those EM investors to see a new area of interest where they can trade, you know, much more efficiently.

The return characteristics over the last few years have been very strong. That's been picked up on, so I think the timing could not be better for the launch of the index. And obviously, more importantly, the launch of the exchange partnership.

Juan Pablo Córdoba: Excellent. Well, that's good news. And I do see it, the same way that this is a great opportunity for Latin America in general, for nuam and then the nuam market. So, we hope to have all the participants working in the right direction. How do you see this, in the process of furthering the ecosystem locally?

George Harrington: Yeah, I think the local ecosystem, again, in my view, is still relatively new, at least in certain components. So, as I mentioned before, the derivative ecosystem is still relatively new. Right? I think that's going to take some time. We already have seen some demand in the OTC markets internationally, not domestically yet.

But I do think that the direction of travel is that you'll likely see some swap activity start, and then around that, that's where you would come to potentially derivatives, more likely, I would think it would be local ETFs is the way that I think that will develop, you know, already today obviously there's, there's Blackrock product in Colombia.

There's VanEck products in Peru. There's Itau product, you know, here in Chile. So, I think that over time those, you know, may very, very you know may expand to the regional product, the nuam product, obviously that's what we all would like to see. But I think that there's going to be a fair amount of education that will be doing around the nuam methodology, some consultations in terms of liquidity thresholds around that. I think that will be an important part of helping the ecosystem of development locally.

Juan Pablo Córdoba: Yeah. From what I heard today, I think there's a lot of work to be done in education, both locally and internationally. But for sure.

George Harrington: Yes. I think that, especially where you have a new local methodology that's going to apply to local index as well as to the regional index. I think that's going to be the sort of the big left that will be, will be focused on over the next 6 to 12 months. So, everyone understands.

I think, as we go through a few rebalance cycles under nuam methodology, people are going to be watching very closely how that impacts the market. Obviously, not only do we have nuam, but we also going to be watching the Peru index and then next year the Chile index. I think that's going to have, you know, a lot of focus. So, it's going to be difficult for people to look at just nuam without looking at the local impact to the local trading as well on the local indexes.

Juan Pablo Córdoba: Yeah, for sure. It's a lot of changes, but from what I hear, they're all in the right direction.

George Harrington: Absolutely.

Juan Pablo Córdoba: What can we tell our issuers, the companies in these markets? The whole idea of this is to make the markets more visible for companies. But not all of the companies are focused on being part of the index. What can we tell the issuers?

George Harrington: Yeah, I think for the issuers there's a tension there. Right. So, there's no easy solve for that. That's obvious there are going to be companies that will be included and companies that won't be included based on liquidity ratios. I think that for larger firms, the big story is on accessibility.

And we spoke about this on the panel downstairs just a bit ago. Accessibility is a huge factor. When it comes to sort of the rebalance trade and the efficiency around the rebalance trade. We certainly heard that in the US, in the European roadshows, that is a major factor.

And I think that coming back again to education, I think that the companies are going to say, what does it take for us to be included in that? Because when they see a rebalance flow and they see higher demand for the included companies, they're going to want to be there.

Because again, I am very confident that those flows will definitely happen. And therefore, being included in nuam is going to be something that I think is going to be in high demand, in all three countries.

Juan Pablo Córdoba: Excellent. We have to work towards that. Yes, definitely.

George Harrington: Yeah.

Juan Pablo Córdoba: Now, in terms of financial innovation, you mentioned that one of the paths forward is developing products that are investable in the nuam index or reference the index like derivatives, etc. What are good examples around the world that we could follow or learn from?

George Harrington: Yeah, I mean staying with EM. So, we've had a lot of experience, focusing on India, Saudi Arabia, Korea, where we now have product coming. And I think there's been different paths to success. So, there have been countries that have been very focused on keeping their local product local and then an offshore product, and sometimes in wide format, sometimes in limited format.

And I think that the best successes that we've seen without question are on the development on onshore offshore markets. And India is probably the best example. MSCI India is one of the most liquid, futures contracts that we have.

The nifty trades onshore, in a number of different formats. But when you develop this onshore offshore market, the capital flows around that have worked extremely well. Without question. Brazil has been somewhere where obviously Bovespa trading onshore, MSCI Brazil trading offshore. A bit more competition between those two. But you know, that seems to be moving in the right direction.

We're about to launch as I was just saying MSCI Korea trading offshore and then obviously KOSPI trading onshore. So, I think that, you know, these onshore offshore market developments have worked very well. nuam is a bit different, right. Because nuam is a block and therefore the creation of a single new, onshore derivative market and offshore derivative market I think is very interesting.

And I think it's something that could develop very well if the derivatives markets are to evolve differently. Where there's Colombia, it has a derivatives market. Peru and Chile don't really have an active derivative market, you know, either synthetically or certainly from a listed standpoint.

I think the part of the overall opportunity is that we're going to try and develop these international markets. We want to develop onshore interest. We want to develop offshore interest. How do we achieve that? I think more likely than not an international derivative is probably where you'll start. And then as the onshore participants get more comfortable with nuam index and more comfortable with the new single country indexes, then I think of derivatives as a natural evolution. But because the ETFs are there, I think, we'll probably see ETFs move before the synthetic product, at least onshore.

Juan Pablo Córdoba: Excellent, thank you George. And I like the fact that you say we all the time - always we - it means we're going to be working together. So, precisely to wrap it up, I wanted to ask, what's in store in this future partnership between MSCI and nuam? Do you see this going forward?

George Harrington: Yeah. I think we are in for a lot of education. And I think that applies to both, nuam and MSCI in terms of coming from the market participants, obviously outbound to market participants domestically, internationally as we've already started. But I think as we wrapped up our, wrapped up our meetings, the US and Europe, we both walked away and said, we have to do a lot more of that to continue the global interest in the product.

But, you know, I think we're starting from a good base now, so I'm very happy about that. But there's no question that as we go through not just the process of the nuam, which, we've done successfully today. But the Peru country launch, the Chile country launch, you know, those are going to be major educational events that will go on.

So, it's going to be a really, heavy, ongoing iterative process. But I think that, you know, again, based on where EM demand is now and the growth in the EM demand and especially, EM China, the timing is excellent. Well, we'll definitely learn a lot as we go through the process.

We'll get a lot of feedback from local participants and international participants. But net-net and going back to the accessibility point that I made before, I think what we will end up with is a much deeper, more

liquid, vibrant market for nuam based on larger regional participation and larger international participation.

Juan Pablo Córdoba: Well, that all sounds, very exciting. So, thank you very much, George, for visiting here in Santiago, for helping us in this process. And we look forward to the future together. Thank you very.

George Harrington: Much. Absolutely happy to be here. And congratulations on the launch Juan Pablo.

Juan Pablo Córdoba: Thank you.

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