

Perspectives Podcast

“Investment Trends in Focus: AI, Asset Allocation and Adaptation”

Transcript, 09 October, 2025

Adam:

Welcome to MSCI Perspectives. I’m your host, Adam Bass, and today is October 9th, 2025.

Markets may have calmed since last quarter’s turbulence, but investors are still navigating uncertainty — from gold’s surprising surge and China’s rebound to questions about U.S. dominance, AI’s real impact and the promise of private assets. So, what are clients thinking as they weigh risk, opportunity and innovation in this environment?

To find out, MSCI’s Chief Research Officer, Ashley Lester, sat down with Michelle Shanley, MSCI’s global head of strategic and key accounts. Here’s that conversation.

WEBVTT

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Collevocchio II, Joe: In a few seconds, you should see the recording warning now.

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00:00:04.770 --> 00:00:06.580

Lester, Ashley: Okay, got that.

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00:00:06.790 --> 00:00:13.669

Collevecchio II, Joe: Alright, have a great discussion. I will only break in if there's a technical issue and I need you to repeat something. Otherwise, hopefully we can give you a little bit of time back today.

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00:00:14.060 --> 00:00:16.680

Lester, Ashley: Okay, great, let's see how we go,Ä¶

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00:00:27.870 --> 00:00:28.830

Lester, Ashley: Alright.

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00:00:31.900 --> 00:00:34.739

Lester, Ashley: Hello, listeners, wherever you may be, and welcome to our.

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00:00:34.740 --> 00:00:38.049

Collevecchio II, Joe: I'm gonna break in immediately. Sorry about that. One last reminder.

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00:00:38.050 --> 00:00:38.690

Lester, Ashley: much.

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00:00:39.060 --> 00:00:43.190

Collevecchio II, Joe: Yeah, please, please look at the camera, not at the person on the screen when you,

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00:00:43.190 --> 00:00:44.039

Lester, Ashley: Yep.

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00:00:44.040 --> 00:00:45.020

Collevecchio II, Joe: speaking.

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00:00:45.020 --> 00:00:49.290

Lester, Ashley: I'm trying to go as close to the script as possible with the camera.

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00:00:49.610 --> 00:00:50.070

Collevecchio II, Joe: Gotcha.

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00:00:50.070 --> 00:00:51.240

Lester, Ashley: Okay.

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00:00:54.310 --> 00:01:11.550

Lester, Ashley: Hello, listeners, wherever you may be, and welcome to our quarterly investment trends update. I'm Ashley Lester, the Chief Research and Development Officer at NSCI. This quarter, I'm joined by my good friend and one of our most senior client officers, whose special mission is to know and serve our largest clients around the globe.

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00:01:11.550 --> 00:01:14.769

Lester, Ashley: Michelle Shanley. Michelle, welcome to the podcast.

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00:01:14.770 --> 00:01:17.399

Lester, Ashley: Perhaps you could introduce yourself to our listeners.

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00:01:17.570 --> 00:01:24.680

Shanley, Michelle: Great, thank you, Ashley. So happy to be here. Again, Michelle Shanley, and I lead our global strategic account

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00:01:24.680 --> 00:01:41.280

Shanley, Michelle: effort at MSCI, and this is an effort where we engage with, our largest and most strategic, clients around problems they're trying to solve, opportunities they're trying to monetize, and how MSCI solution can fit into that equation.

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00:01:42.790 --> 00:01:52.599

Lester, Ashley: Great. So, Michelle, our task today is to bring our listeners up to date with the most important trends that we saw in the world of finance over the last 3 months.

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00:01:53.010 --> 00:02:04.049

Lester, Ashley: I'd say I was thinking about how to describe these three months. I think maybe they lacked the raw drama of the second quarter, when we had Liberation Day, and a tariff-induced meltdown in markets.

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00:02:04.050 --> 00:02:13.450

Lester, Ashley: And then that very fast, very rapid bounce back. But they've had their own peculiar drama, I think, to them, and maybe their own peculiar underlying logic.

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00:02:13.600 --> 00:02:22.979

Lester, Ashley: Here's a pop quiz for you. Can you guess the world's best performing major asset class last quarter? Or, alternatively, the best performing stock market?

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00:02:24.070 --> 00:02:33.379

Shanley, Michelle: I would guess, the best performing stock market would be the U.S. and the asset class, perhaps large-cap equities.

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00:02:33.910 --> 00:02:49.699

Lester, Ashley: There we go. Good guesses, but not quite there. So, over the last 3 months to the end of last week, October 2, actually, the top performing asset class in the world was gold. It was up over 13% in the quarter, and it's up 40% this year.

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00:02:49.800 --> 00:02:58.979

Lester, Ashley: And the best performing stock market was, Å drumroll, China. It was up more than 22% last quarter and 45% this year.

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00:02:59.380 --> 00:03:06.900

Lester, Ashley: So, not bad for an uninvestable asset class. The US recovery in Q3 was a bit over 8%.

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00:03:06.960 --> 00:03:26.129

Lester, Ashley: So, so strange times. Strange times. Gold used to be thought of as kind of a classic risk-off asset, whereas last quarter, things kind of bounced around, but, you know, the other big performer, obviously, is China, which was definitely not traditionally a risk-off asset class.

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00:03:26.350 --> 00:03:31.630

Lester, Ashley: So, what are your clients talking about in the middle of these very unusual times?

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00:03:32.140 --> 00:03:41.579

Shanley, Michelle: I think clients in general are struggling, with, you know, what to do about U.S. exposure.

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00:03:41.590 --> 00:03:51.579

Shanley, Michelle: Obviously, there is risk around U.S. institutions, but nobody wants to give up the exposure to technology and innovation.

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00:03:51.580 --> 00:04:14.460

Shanley, Michelle: That obviously has been led by our MAG7 and related stocks. I think that's a big, big focus for institutions around the globe. Obviously, private assets, is another big, big theme, that I think we'll be talking about today. And of course, AI, which obviously feeds into the first topic.

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00:04:14.690 --> 00:04:19.049

Shanley, Michelle: So I think those are a lot of, big themes we're hearing from clients around the globe.

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00:04:19.820 --> 00:04:34.739

Lester, Ashley: That's definitely some big themes. I agree that there's this big, sort of, there's this divide. I wonder how your clients, especially in the States, are thinking about it. In Europe and Asia Pacific, there's definitely a sense of,Ä¶

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00:04:34.960 --> 00:04:42.750

Lester, Ashley: A willingness to investigate whether it's still appropriate to have 70% of your growth assets in the US.

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00:04:42.940 --> 00:04:57.810

Lester, Ashley: And so kind of a general openness to alternative, arrangements, but at the same time, very little movement, actually, away from the US, really, because, as you've noted, you know, in some sense.

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00:04:58.170 --> 00:05:05.950

Lester, Ashley: Developing markets aside, and maybe we'll come back to those, there's a little bit of a sense of there is no alternative.

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00:05:06.330 --> 00:05:12.049

Lester, Ashley: Because of this big technological, supremacy that the US seems to have.

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00:05:13.030 --> 00:05:18.750

Lester, Ashley: Inside the US, is there that same sense of unease with having 70% of assets in the US?

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00:05:19.760 --> 00:05:30.729

Shanley, Michelle: I think there's a little less unease, and some of that is, you know, artificially held up by certain positions of institutions in the U.S.

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00:05:30.730 --> 00:05:54.990

Shanley, Michelle: And,Ä¶ but we have seen some tactical, reallocation to developed, non-U.S. market, so diversifying a little bit, I think, around the edges. Obviously, there's been sensitivity around China and perhaps missing out on some of that upside, that you noted earlier. But I'd say in Canada, we see.

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00:05:54.990 --> 00:06:17.860

Shanley, Michelle: asset owners really looking at China opportunistically, and looking at, you know, what it represents, given some of the asset flows earlier in the year outside of, that market. So, I think a lot of people, you know, of, you know, the U.S. institutions are, not doing a whole lot, but

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00:06:17.860 --> 00:06:32.100

Shanley, Michelle: but rebalancing around the edges, I think we also see them looking at their, you know, private asset allocations and valuations in PE, and looking throughout the private asset spectrum around allocations, so,Ä¶

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00:06:33.120 --> 00:06:50.029

Lester, Ashley: Yeah, it's,Ä¶ it's pretty interesting, right? So, in that quarter, right, I mentioned that the US was up about 8%. That was a little, a little better than Europe, which was up a bit under 6%, a little worse than emerging markets, 11%.

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00:06:50.270 --> 00:06:55.370

Lester, Ashley: But if you go, sort of, underneath the hood,

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00:06:55.670 --> 00:07:10.839

Lester, Ashley: US mega caps were up 12, so they handily beat even emerging markets, whereas, the rest of the US, sort of, main part of the index was only 3.5% up, so that was way behind even Europe.

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00:07:11.030 --> 00:07:28.589

Lester, Ashley: And so I feel like the flows that people are driving into the States are very much expressing this view that, what exposure do they want to U.S. assets? They want the exposure that they can't get anywhere else, which is basically these mega caps.

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00:07:28.940 --> 00:07:31.550

Shanley, Michelle: Yeah, absolutely, absolutely.

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00:07:31.550 --> 00:07:39.520

Collevocchio II, Joe: I'm sorry, I'm gonna break in real quick. Ashley, would you do me a favor and actually tilt your camera down just slightly? Yeah. It seems like it's,Ä¶ yeah, it seems like it's hiked up a bit.

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00:07:39.700 --> 00:07:40.529

Lester, Ashley: Map that out?

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00:07:40.530 --> 00:07:46.369

Collevocchio II, Joe: Perfect, okay, thank you. Sorry about that, and I will correct that in post so that it's even throughout the video. Thank you.

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00:07:46.370 --> 00:07:47.700

Lester, Ashley: Okay, no worries.

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00:07:49.820 --> 00:08:06.809

Lester, Ashley: Yeah, so now, are your clients expressing any concerns about valuation, though? I mean, the valuation on this stuff is super extreme, so the megacat price-earnings ratio is sitting at about 33, compared to about 24 for the world as a whole, and that's including the States.

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00:08:07.510 --> 00:08:26.680

Shanley, Michelle: Yes, absolutely. I think that that is a concern, and maybe why we're seeing some, risk budget, risk budgets increasing, and more, greater emphasis on liquidity management in order to be in a position to take action on the heels of those valuations.

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00:08:26.690 --> 00:08:42.220

Shanley, Michelle: So I would note that. I would also note that, you know, we had a very timely blog posted this morning, right, which I can let you elaborate on, on the price of U.S. exceptionalism, which I thought was, you know, quite timely, given the,

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00:08:42.440 --> 00:08:44.150

Shanley, Michelle: The theme you just highlighted.

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00:08:44.610 --> 00:08:49.349

Lester, Ashley: Oh, well, thank you, Michelle, for that opening to discuss some of my pet research topics.

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00:08:49.350 --> 00:08:50.970

Shanley, Michelle: Yeah.

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00:08:50.970 --> 00:09:03.529

Lester, Ashley: So, so this is really an interesting area, I think. So, along with a colleague of mine, Anil Rao, who's appeared on this podcast sometimes, Anil and I have been looking at,

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00:09:03.530 --> 00:09:13.449

Lester, Ashley: Plus, why has the U.S. market appeared to have done so well, or has done so well, over the course of the 15 years or so since the financial crisis?

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00:09:14.650 --> 00:09:33.949

Lester, Ashley: Just a reminder to our listeners that, up to the start of this year, the US market outperformed the rest of the world by about 7 percentage points per annum, right? And so that's why we find ourselves at this place where, at this point where US assets are kind of about two-thirds or more of global equity assets.

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00:09:34.180 --> 00:09:48.100

Lester, Ashley: So when we looked at this, we, started asking, well, what types of companies have really underpinned this exceptionalism? And actually, what we found that, valuations aside.

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00:09:48.170 --> 00:09:58.940

Lester, Ashley: there is definitely a group of companies in the US that has performed in a truly exceptional way over the past 15 years, and that is large and mega-cap companies. And,Ä¶

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00:09:59.030 --> 00:10:05.229

Lester, Ashley: The,Ä¶ when I say valuations aside, I mean that we can look at real-world metrics of them.

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00:10:05.660 --> 00:10:23.489

Lester, Ashley: And how they've evolved over the past 15 years, and we can see that they've really pulled apart from the pack. So, for example, US mega caps have more or less doubled sales per employee over the past 15 years, whereas European,Ä¶ the largest cap European stocks have actually gone modestly backwards on the same measure over time.

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00:10:23.550 --> 00:10:40.920

Lester, Ashley: R&D, pretty much all of the growth in, at least in developed market R&D over the last 15 years has come from US large cap stocks. Profitability has really expanded in US large cap stocks, whereas not really done anything different over recent time.

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00:10:41.180 --> 00:10:45.269

Lester, Ashley: for other stocks. And most intriguing of all to us.

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00:10:45.670 --> 00:10:54.959

Lester, Ashley: Was, one reason why value as an investment strategy has historically worked so well is that,

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00:10:55.050 --> 00:11:11.869

Lester, Ashley: In general, we find that,Ä¶ in general, it's kind of a stylized fact, actually, that unusual company growth spurts don't last very long. If a company is growing fast at the moment, or expected to grow faster in the next couple of years, very quickly they will revert to the mean of their peer group.

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00:11:12.700 --> 00:11:17.470

Lester, Ashley: And that has remained true over the period since 2009, except,Ä¶

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00:11:17.980 --> 00:11:26.709

Lester, Ashley: for these US large caps, where the half-life of an exceptional growth period has sort of doubled or more to 4 years or more.

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00:11:27.040 --> 00:11:35.000

Lester, Ashley: So that's,Ä¶ that's really this sort of price of growth story that we're getting, and we find that the market's prepared to pay for those long periods of growth.

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00:11:36.740 --> 00:11:48.600

Shanley, Michelle: Very, very interesting, and I'd get,Ä¶ I'd love your opinion, Ashley, on, you know, the U.S. interest rate environment and how that might be supporting the paradigm you just outlined from the blog.

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00:11:49.360 --> 00:11:50.060

Lester, Ashley: Yeah, well.

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00:11:50.060 --> 00:11:54.199

Shanley, Michelle: I don't know if I'm switching channels on you, but it seems to,Ä¶

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00:11:54.200 --> 00:12:01.530

Lester, Ashley: I think this is fascinating, right? I mean, this time 3 months ago,

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00:12:01.550 --> 00:12:15.250

Lester, Ashley: I was chatting with Axel, our colleague, and we were talking about, kind of, the interest rate outlook, and, I said, well, I think you need,Ä¶ we need to really keep an eye on a steepening of the yield curve.

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00:12:15.250 --> 00:12:29.540

Lester, Ashley: in the States, and whether the long-run inflation expectations will become, sort of, unanchored, and therefore, even aside from what happens at the front end of the curve, maybe the long end of the curve will increase.

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00:12:29.680 --> 00:12:49.289

Lester, Ashley: And quite frankly, that hasn't happened at all. I mean, that call was totally wrong. So while the long end of the curve in other markets has continued to drift up a little, in the US, it's come down over the last quarter. Personally, I find this quite, sort of, amazing. Clearly, it must be beneficial for the valuation of

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00:12:49.360 --> 00:13:01.189

Lester, Ashley: these sorts of growth companies, and perhaps also of private companies that we can come onto. But, to me, this is an amazing fact. In the face of, you know, attacks on the Fed's independence.

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00:13:01.310 --> 00:13:10.570

Lester, Ashley: Sacking the commissioner for the BLS, who's responsible for producing inflation statistics, and now a government shutdown in the US of indeterminate length.

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00:13:10.920 --> 00:13:20.829

Lester, Ashley: I'll tell you, I'm not quite sure how to read developments at the long end of the curve in the US. Do you have a take, or do our clients have a take?

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00:13:21.940 --> 00:13:33.160

Shanley, Michelle: I think, I think that, it comes back to, I, I, I was, comes back to your conversation, I think, with, with Sonia Loud at our Investment Summit.

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00:13:33.160 --> 00:13:51.950

Shanley, Michelle: Last month in London, and we had a follow-up here in New York, but I just think we're in a time of, as you mentioned, your words, unprecedented uncertainty, and it's a little bit of, you know, a paralysis, I think, for our clients, and then there's a little bit of.

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00:13:52.250 --> 00:14:11.829

Shanley, Michelle: FOMO, right? Fear of missing out on this, you know, perhaps unprecedented technology wave in, and then looking through all of the dynamics you just, you just described, and we have this, you know, continued somewhat melt-up of these markets. It's, it's,

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00:14:12.220 --> 00:14:23.380

Shanley, Michelle: you know, very interesting, and I think there is quite a bit of uncertainty, but a lack of, inclination to dramatically change asset allocations.

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00:14:23.740 --> 00:14:31.940

Lester, Ashley: Well, you know, something you said earlier that I thought was such interesting was that clients were kind of keeping an eye on things and sort of sounded like they were ready to jump ship.

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00:14:31.970 --> 00:14:46.249

Lester, Ashley: if they saw a catalyst to do so. And a phrase which I've been hearing more in the last 3 months than I have in quite a few years is that famous phrase by, I think Prince, the CEO of Citigroup.

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00:14:46.250 --> 00:14:53.970

Lester, Ashley: During the financial crisis. And in comments afterwards, he said, well, while the music's playing, you've got to dance.

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00:14:54.080 --> 00:15:06.679

Lester, Ashley: Right? And he used,Ä¶ he invoked this as an explanation of why, even though, kind of, a lot of people in the financial markets could see signs of trouble ahead in 2007, 2008,

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00:15:06.770 --> 00:15:19.559

Lester, Ashley: No one really was able to stop dancing. So I don't know what trouble they had, but that phrase has been popping up in conversations I've been having with institutional investors around the world.

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00:15:20.050 --> 00:15:30.990

Lester, Ashley: So,Ä¶ so that's,Ä¶ that seems pretty, amazing to me. The,Ä¶ the government shutdown, just for,Ä¶ for the, for the record, we're recording on,Ä¶ on the 6th of October. Yeah.

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00:15:31.060 --> 00:15:43.120

Lester, Ashley: Do we have any idea from our,Ä¶ from our American clients, sort of, whether that's disturbing anyone, whether we expect this to have a significant effect on the financial market outlook if it drags on?

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00:15:43.930 --> 00:15:49.699

Shanley, Michelle: I think,Ä¶ I think it's still quite early days, Ashley. I think people are holding out hope.

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00:15:49.700 --> 00:16:14.689

Shanley, Michelle: perhaps this week, we get a continuing resolution, right, until the next inflection point. But I think at this juncture, it's a little too early to tell, but the news cycle is clearly extremely short, so things can change on a dime, as you know so well. And I just wonder if we've been, trained a bit in the knee-jerk reaction, going back to the earlier

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00:16:14.690 --> 00:16:39.260

Shanley, Michelle: earlier topic of the rally post the sell-off of Liberation Day, are we just now programming ourselves that, you know, we'll work through, you know, some of these unprecedented situations? I wonder if that's also somewhat of a tailwind as well. But at this juncture, I think, you know, people, again, are perhaps still dancing, despite even

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00:16:39.260 --> 00:16:43.150

Shanley, Michelle: This latest, inflection point.

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00:16:43.150 --> 00:16:45.539

Lester, Ashley: Despite the latest. Yeah. Indeed, I mean,Ä¶

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00:16:45.600 --> 00:17:03.660

Lester, Ashley: Indeed. I mean, it's very striking on this side of the advantage. And so, you know, I've sort of been pretty clear about, kind of, the causes, I think, that there are for bearishness about the course of US institutions, at least compared to what has historically been thought of.

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00:17:03.660 --> 00:17:07.539

Lester, Ashley: As a sound basis for long-term institutional governance.

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00:17:07.540 --> 00:17:22.750

Lester, Ashley: And so, in some sense, we're in the middle of a grand experiment here in policy making, and so none of us should write off the possibility that, you know, the set of institutions currently being put in place in the States might

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00:17:22.750 --> 00:17:39.920

Lester, Ashley: might lead to all sorts of future flourishing. But traditionally, economists, and my training is as a growth economist, think that, you know, a high degree of predictability in policy making, that the impersonal application of the rule of law, the institutional separation.

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00:17:39.920 --> 00:17:47.220

Shanley, Michelle: some degree of fiscal discipline. Historically, economists have thought those are growth-supporting institutions. Just on this fiscal point.

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00:17:47.220 --> 00:17:55.869

Lester, Ashley: you know, the US is now in breach of what the Harvard historian, or I think now, sorry, Stanford historian, Neil Ferguson.

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00:17:56.790 --> 00:18:14.569

Lester, Ashley: has termed Ferguson's Law. Right. So, Ferguson's Law, roughly speaking, says that if an empire spends more on debt service than it does or can on defense, then the empire's at imminent risk of decline.

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00:18:14.690 --> 00:18:26.660

Lester, Ashley: And that's the point that the US has got to, and with big fiscal deficits stretching out as far as the eye can see, and yet, as I say, this decline in interest rates. Now, compare that to this side of the Atlantic.

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00:18:26.670 --> 00:18:36.360

Lester, Ashley: Maybe one reason why investors don't react more strongly against the US, even in the fixed-income markets, is that it's not like other places seem that much better.

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00:18:36.390 --> 00:18:51.850

Lester, Ashley: In particular, just today, France has seen the resignation of its Prime Minister, who's now the shortest-serving Prime Minister, since the institution of the current, of the current French Republic in the 1950s.

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00:18:52.300 --> 00:18:57.740

Lester, Ashley: And so France is going, sort of, the full Italy with a new prime minister every other Tuesday.

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00:18:58.050 --> 00:19:12.909

Lester, Ashley: The rest of the continent is not looking too hot either, fiscally, and so maybe that's yet another reason why it seems that markets are prepared to extend what seemed like, kind of, extraordinary degrees of credit to the US.

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00:19:14.600 --> 00:19:38.580

Shanley, Michelle: Agreed, greed, Ashley. And, you know, maybe I'm an eternal optimist, but maybe it's a great, great time to look at, you know, another major theme I mentioned earlier, which is AI, and of course, that was, clearly a dominant theme in our recent investment summits, and certainly to take up a lot of oxygen at our upcoming, asset owner forums globally, so I would love to

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00:19:38.580 --> 00:19:47.190

Shanley, Michelle: to get your thoughts on that theme and how it's perhaps, again, you know, helping to support the valuations, particularly in the U.S. and the MAG7.

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00:19:47.740 --> 00:20:03.899

Lester, Ashley: Well, there's no doubt that it is, right? That's definitely for sure. I mentioned PEs earlier, like, 33 for US mega caps. Another sign of, kind of extreme valuations is that the price-earnings ratio of the tech sector globally is over 40.

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00:20:04.170 --> 00:20:17.010

Lester, Ashley: So, investors are definitely really excited about, about AI. one interpretation of,

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00:20:17.020 --> 00:20:34.580

Lester, Ashley: of why investors may be prepared to extend this sort of benefit of the doubt to the US. There's basically two interpretations. One is that the US has maintained its so-called exorbitant privilege, that it's still the ultimate sort of safe haven, and so on.

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00:20:34.580 --> 00:20:43.379

Lester, Ashley: But another interpretation is just that investors are very optimistic about AI, and in particular, investors believe

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00:20:43.630 --> 00:20:52.619

Lester, Ashley: And here, again, there's two sub-interpretations. Either investors believe that the US is going to,Ä¶

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00:20:52.910 --> 00:20:57.230

Lester, Ashley: drive all the AI gains, in the sense of having the AI companies

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00:20:57.260 --> 00:21:16.800

Lester, Ashley: But I think, actually, investors are making a stronger, sort of, statement as well, for the most part, which is that investors believe that the bulk of the early productivity gains, independent of, sort of, the AI stocks themselves, the bulk of the early productivity gains will also come from the States.

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00:21:16.910 --> 00:21:29.320

Lester, Ashley: And as Sonya Lau pointed out, the Chief Investment Officer at LGM pointed out at that recent forum that you mentioned, you know, swings of just, say, half a percentage point in future productivity

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00:21:29.320 --> 00:21:37.449

Lester, Ashley: Can, over the course of 15 or 20 years, add up to a 50% or so swing in the ratio of debt to GDP.

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00:21:37.510 --> 00:21:51.909

Lester, Ashley: That, that we can imagine sort of occurring out around 2050 or 2040. So exactly what we think AI's impact is going to be has a huge effect on our sort of long-term fiscal, and therefore interest rate outlook.

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00:21:53.120 --> 00:22:06.499

Shanley, Michelle: Absolutely, and I think, you know, probably from a client standpoint, what we're seeing is, you know, a lot of our large, clients, particularly in the asset management, but not solely asset management, are

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00:22:06.600 --> 00:22:30.059

Shanley, Michelle: undergoing, structured re-evaluation of their data infrastructure to make sure it's AI-ready. So we're seeing some of the largest. There's a recent article around Vanguard, and what they're doing around their, you know, data infrastructure. And of course, we're having a lot of great conversations with clients about how we fit into those conversations.

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00:22:30.060 --> 00:22:55.010

Shanley, Michelle: But that's one theme. And then, of course, downstream, how does that revolutionize the investment process, and again, bringing them a lot of cost savings, which, of course, in the asset management segment will be welcome. And then the third theme, which was, you know, brought up at our investment summit just two weeks ago in New York, is how does it change the way we develop talent? New, you know, more junior talent

126

00:22:55.010 --> 00:23:03.150

Shanley, Michelle: in these organizations, if much of the, sort of, what we used to call grunt work or earning your stripes, much of that

127

00:23:03.160 --> 00:23:11.240

Shanley, Michelle: It's tackled by AI, and so how do we, adjust how we develop, young.

128

00:23:11.260 --> 00:23:20.570

Shanley, Michelle: And talented, people, such that they, they still, get the experience, and, are,Ä¶ are,Ä¶

129

00:23:20.920 --> 00:23:45.670

Shanley, Michelle: are not getting lost in the shuffle, if you will. I think that's perhaps a continuing theme of what we saw, perhaps, through the pandemic, where there was clearly a lot of hiring, and we could

do that easily, and people starting from home, but really losing that human touch, losing, you know, the oversight and being able to learn by seeing, sitting next to someone,

130

00:23:45.850 --> 00:23:57.769

Shanley, Michelle: Whether it's selling, or, you know, or research, or product development. So those are some of the themes that we're,Ä¶ that we're seeing from a client standpoint, if you will, from investment management to people management.

131

00:23:58.260 --> 00:24:07.179

Lester, Ashley: That's super interesting. I agree with you on all of those themes. Just picking up on, kind of, the first one about where we are in, kind of, the AI adoption curve.

132

00:24:08.360 --> 00:24:25.129

Lester, Ashley: I think this is real interesting. There's been a certain amount of, perhaps, mild disappointment at times that has moved the market a bit about, kind of, how successful AI has been so far. There was that widely cited MIT paper that said 95% of AI projects aren't paying off, or something.

133

00:24:25.130 --> 00:24:32.640

Lester, Ashley: And that moved the market, a bit on that day, and then the market promptly forgot about it and moved on.

134

00:24:32.750 --> 00:24:38.860

Lester, Ashley: Yeah, I think that, from what we're seeing from our clients,

135

00:24:38.930 --> 00:24:57.910

Lester, Ashley: it takes time for big organizations to really figure out how to get moving on,Ä¶ on AI, how to really incorporate thinking about a brand new area, systematically into their organizations. And kind of a classic case of this

136

00:24:57.920 --> 00:25:06.930

Lester, Ashley: It is just thinking that the new technology is going to enable us to do all the same things as the old technology did, but 50% faster.

137

00:25:07.010 --> 00:25:14.999

Lester, Ashley: And,Ä¶ or cheaper, or whatever. And,Ä¶ and really, the key thing here is that AI is a general-purpose technology.

138

00:25:15.340 --> 00:25:34.140

Lester, Ashley: And general purpose technologies, that is, things that are useful for a whole range of things, just don't work that way. Instead, what they do is they open up whole new vistas of ways of doing things which wouldn't economically have been feasible before, and so they,Ä¶

139

00:25:34.140 --> 00:25:34.470

Shanley, Michelle: random.

140

00:25:34.470 --> 00:25:45.609

Lester, Ashley: the whole old organisational structures and even product thinking redundant as we move to kind of,Ä¶ I'll use an overused word, but I think it's appropriate in this case, a new paradigm.

141

00:25:45.990 --> 00:25:51.200

Lester, Ashley: So, so, you know, to give you an example,

142

00:25:51.860 --> 00:26:00.579

Lester, Ashley: AI is still a very imperfect technology. In many cases, it's sort of, let's call it some arbitrary number, 80 or 90% accurate.

143

00:26:01.630 --> 00:26:18.910

Lester, Ashley: But,Ä¶ but a lot of the products which people have built in the past have been very finely refined over time, such that the only acceptable degree of accuracy now is something close to 100,Ä¶ 99.9, or 99.99% accurate.

144

00:26:19.010 --> 00:26:33.040

Lester, Ashley: Right? Because we've been living in a relatively stable technological backdrop until now. And so if you introduce an 80% or 90% technology to a set of products that need 99.9, the economic value you produce is,Ä¶

145

00:26:33.420 --> 00:26:34.449

Lester, Ashley: Not much.

146

00:26:35.430 --> 00:26:51.200

Lester, Ashley: But what we see is whole new vistas of where, before, you couldn't get any insight or information, and so getting to 80% or 90% is going to be revolutionary. An example of that is in work we're doing at the moment on supply chains, for instance.

147

00:26:51.200 --> 00:27:08.610

Lester, Ashley: Where we can bring in vast new data sets, hook them up, enable users to instantly undertake the sort of searches which previously would have taken sophisticated developers days or weeks to accomplish, but now anyone sitting at their desktop can do that in a fraction,Ä¶ literally in a fraction of a second.

148

00:27:08.880 --> 00:27:28.739

Lester, Ashley: Of course the information is still new and fresh, and so it won't be 99.9% accurate. But that's an example of where just looking to do the old stuff is the wrong thinking. Figuring out and imagining what the new stuff is, is what's really going to, I think, add value. And that goes to your point about talent development.

149

00:27:30.570 --> 00:27:42.169

Lester, Ashley: I'm increasingly optimistic that we will be able to find stuff for even young people to do, because there's just going to be whole new fields of human endeavour that we're opening up in.

150

00:27:43.090 --> 00:27:57.199

Shanley, Michelle: Absolutely, absolutely, and I also think that generation is likely not to carry, you know, any baggage whatsoever, and really, their glass is half full as far as, you know, where AI can take us. I'd also comment that, you know, on your comments,

151

00:27:57.240 --> 00:28:04.039

Shanley, Michelle: around AI's capability on the data, and particularly on unstructured data that was there.

152

00:28:04.040 --> 00:28:26.480

Shanley, Michelle: But the ability to bring it together, synthesize it, to actually allow us to make even better decisions around new themes, i.e. the climate transition. We don't have time for that theme

today, but Laura Nishikawa, one of our, one of your lead researchers, obviously, in ESG and climate, really made that poignant comment on the AI panel, so I thought that was.

153

00:28:26.480 --> 00:28:34.749

Shanley, Michelle: You know, on point, for sure, and exciting. Nonetheless. I think before we run out of time, unless you want to,Ä¶

154

00:28:34.940 --> 00:28:35.760

Shanley, Michelle: Continue on that.

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00:28:35.760 --> 00:28:36.560

Lester, Ashley: to private markets.

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00:28:36.560 --> 00:28:36.960

Shanley, Michelle: I love,Ä¶

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00:28:36.960 --> 00:28:37.460

Lester, Ashley: Yeah, you're,Ä¶

158

00:28:37.460 --> 00:28:41.510

Shanley, Michelle: Yes, yes, that's where I was going. That's where I was going.

159

00:28:41.820 --> 00:28:46.879

Shanley, Michelle: You know, yeah, I'll let you, I'll let you start, and I'll take it from there.

160

00:28:47.390 --> 00:28:55.180

Lester, Ashley: So, look, Michelle, there's been a lot of excitement around the so-called democratization of private markets investing.

161

00:28:55.350 --> 00:29:08.680

Lester, Ashley: We saw a flurry of, kind of, brand new types of products being released for retail investors. Of course, now private assets are even allowed into 401ks in the States, but this is a broader and global conversation.

162

00:29:09.530 --> 00:29:10.780

Lester, Ashley: I'm just wondering,Ä¶

163

00:29:10.990 --> 00:29:19.489

Lester, Ashley: What are we seeing so far in terms of flows? Is there,Ä¶ there's definitely excitement from the industry. Is there excitement from the end investor?

164

00:29:19.700 --> 00:29:44.459

Shanley, Michelle: Yeah, I think, you know, we've seen, you know, as you mentioned, a flurry of activity, a flurry of terrific collaborations announced, whether it's, State Street and Apollo and Wellington Blackstone, Vanguard, BlackRock and Great Grey, as well as Voya and Blue Owl. We've seen a handful of products launched, too. The flows, you know, have been,Ä¶

165

00:29:44.460 --> 00:29:59.520

Shanley, Michelle: you know, slow, as they are in the beginning, and I think people need to get their arms around them. I also think,Ä¶ I mean, I think some of the initial products, have reached about \$100 million, which is not insignificant, but clearly, you know, not,Ä¶ not,Ä¶

166

00:29:59.600 --> 00:30:03.880

Shanley, Michelle: extremely significant in terms of, the assets.

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00:30:03.880 --> 00:30:08.599

Lester, Ashley: Especially not when you consider that maybe only 5 or 10% of those products are actually in private assets.

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00:30:08.600 --> 00:30:33.569

Shanley, Michelle: Indeed, indeed. So, I think a lot of education is still to be had, is still needed, and I think, you know, transparency, you know, standardization around benchmarks and the ability to, you know, literally measure the risk of adding, this, you know, these products into, you know, investment plans, model portfolios, you know, asset allocation.

169

00:30:33.570 --> 00:30:44.440

Shanley, Michelle: I think that a lot of education is still needed, on that front. You know, I also think, sorry, I lost my thought, Joe. I was going to make another com,Ä¶

170

00:30:44.440 --> 00:30:46.010

Collevocchio II, Joe: That's okay, that's what that thing's for.

171

00:30:46.410 --> 00:30:47.520

Collevocchio II, Joe: Give me a I'm here.

172

00:30:47.790 --> 00:30:48.290

Lester, Ashley: No.

173

00:30:48.290 --> 00:30:51.269

Shanley, Michelle: Oh, I just, I just, great. Should I just pick it up?

174

00:30:52.340 --> 00:30:53.970

Collevocchio II, Joe: Yep, yeah, you can just pick it up from wherever you.

175

00:30:53.970 --> 00:30:54.760

Shanley, Michelle: Yeah, yeah.

176

00:30:55.070 --> 00:31:19.010

Shanley, Michelle: Ashley, it also reminds me a little bit of the flurry of product launches we saw when ESG was really gaining a ton of momentum, you know, driven by, you know, the ability to customize and reflect investors' preferences in various products, and particularly ETFs. We saw a lot of product come to market, as well as in the mutual fund space.

177

00:31:19.020 --> 00:31:42.410

Shanley, Michelle: You know, and it was,Ä¶ there was a lot of confusion as far as, like, you know, how do I judge these, you know, how do I evaluate these different products, which in some cases

represented values, in some cases represented, you know, the climate transition, and in some cases sort of integrated the both. Both of those themes. I really think we're sort of at that stage that, you know, we haven't seen the volume of products

178

00:31:42.410 --> 00:32:06.360

Shanley, Michelle: launched to that extent. Obviously, it's a much more complex problem, but there has been a lot, and, you know, there are early days. There are still a lot of the products that I mentioned, the collaborations, the products that are still to come. So I think it's very early days. I think we need to, you know, see more flows into these products, and then have, you know, the assets stressed, right?

179

00:32:06.360 --> 00:32:15.990

Shanley, Michelle: perhaps a more volatile time. So, a lot, a lot to come. A lot of education is needed. I think. Perhaps MSCI can play a big role in that. Would love your thoughts there.

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00:32:15.990 --> 00:32:29.430

Lester, Ashley: I love that parallel on the, sort of, rush days of ESG, because really, and the way you drew that out, because really what you're highlighting is, sort of, the question in those days was, what's the point?

181

00:32:29.520 --> 00:32:49.240

Lester, Ashley: You know, are you looking for impact? Are you looking for return? Are you looking for some combination? And maybe, you know, there's not only education, but also a sharpening of understanding of what purpose these assets serve in investor portfolios that's required. You know, I was thinking about this,

182

00:32:49.530 --> 00:33:03.499

Lester, Ashley: yesterday, actually. And I thought, you know, Michelle, let me tell you a story and see if you want to invest. So I've been hearing about this thing, like, all the smart people, have been making tons of money.

183

00:33:03.540 --> 00:33:12.469

Lester, Ashley: If you're an insider, you're rich now. And the good news is, you know, regular people like you and me are finally being allowed in.

184

00:33:12.950 --> 00:33:15.000

Lester, Ashley: But, but,Ä¶

185

00:33:15.260 --> 00:33:30.249

Lester, Ashley: If you want to know, how much people, the rich people, how much money the rich people have been making, actually, I can't quite tell you. Turns out that, you know, that's a bit of a secret, between you and the person you invest with.

186

00:33:30.660 --> 00:33:40.880

Lester, Ashley: And actually, why that person's making a ton of money for you, or how they do it, that's also a bit of a secret, and sometimes the story changes.

187

00:33:41.240 --> 00:33:49.119

Lester, Ashley: And then, when you get the money back, look, not quite sure.

188

00:33:49.290 --> 00:34:04.920

Lester, Ashley: But,Ä¶ but trust me, you'll get it back. So, so, anyway, so this investment class, I looked for some references, and they gave me that, and the references said, yeah, I've been pretty happy, but actually, funnily enough, haven't been getting much of my money back lately when I've asked.

189

00:34:05.150 --> 00:34:10.940

Lester, Ashley: So,Ä¶ so, are you gonna go all in with your 401K and that asset class?

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00:34:11.880 --> 00:34:29.720

Lester, Ashley: And kind of in some sense, that's a little bit the challenge that we're facing here in private assets. So, I think, we sort of need to face that if wealth investors, or if potential retirees are going to put a lot of money in their asset class.

191

00:34:29.870 --> 00:34:48.080

Lester, Ashley: You know, the potential to pick up a bit of extra return is nice, but they need to understand what the characteristics of this asset class are. What's the evidence that it's outperformed? You know, when can they get their money back, and on what terms? All of this, what's actually generated

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00:34:48.370 --> 00:34:54.179

Lester, Ashley: Kind of returns for this asset class, and therefore, will it be, replicated going forward?

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00:34:54.810 --> 00:34:57.959

Lester, Ashley: I want to know all the,Ä¶ all the answers to those questions.

194

00:34:58.310 --> 00:35:01.269

Lester, Ashley: And in some ways, the industry's not set up, right?

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00:35:01.460 --> 00:35:19.049

Shanley, Michelle: No, no, and I think you,Ä¶ that's a great point, and I think, it supports, our work, with a lot of GPs around delivering, transparency, education, performance attribution of these types of products

196

00:35:19.050 --> 00:35:42.570

Shanley, Michelle: to that wealth and client, because clearly, with the massive transfer of wealth, that, should be happening right now, they all want to harness that. But I think they are, aware that, it is, again, to use the paradigm again, you know, a whole, it is a new paradigm, and it will require a lot more

197

00:35:42.570 --> 00:35:50.720

Shanley, Michelle: transparency to appoint, you know, education, you know, and structure, just how do I, again, how do I,Ä¶

198

00:35:50.720 --> 00:36:15.199

Shanley, Michelle: look at this in terms of my entire retirement plan, and, what kinds of turn,Ä¶ returns can I model and risk in turn. So, we are doing a lot of work in that space, you know, what we like to term is, you know, sales enablement, right? And bringing, you know, new opportunity sets. So, it's opened up a great conversation and engagement, channel with us and

199

00:36:15.200 --> 00:36:17.529

Shanley, Michelle: and the GP, client segment.

200

00:36:18.220 --> 00:36:33.200

Lester, Ashley: Now, I'll just,Ä¶ I can't help it. I'll just close by sort of saying a few things about returns in this segment. We just closed our,Ä¶ we just produced our second quarter report on private asset returns.

201

00:36:33.200 --> 00:36:45.950

Lester, Ashley: The lag is because it takes GPs a long time to establish the value of their holdings even retrospectively, and so it takes us almost a full quarter in order to figure out what was going on.

202

00:36:46.130 --> 00:36:57.830

Lester, Ashley: But in Q2, all the major private asset classes recorded positive returns. That said, of course, private equity returns were rather lower

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00:36:57.880 --> 00:37:09.930

Lester, Ashley: Even then the returns of public equity in the US, let alone of some of these international Chinese or Omega-cap stocks that we've been talking about. And that can continue as a run of a few years now.

204

00:37:09.950 --> 00:37:27.699

Lester, Ashley: And at the same time, the amount of investments that are being realized, that is, private equity assets that are being sold, and therefore the money can be returned to any investors, that continues to bounce along at kind of near-record lows, maybe a little higher than Q1.

205

00:37:27.790 --> 00:37:33.020

Lester, Ashley: And not that many new investments are being made, certainly well off the pink.

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00:37:33.200 --> 00:37:43.719

Lester, Ashley: And so this is an asset class which, or a set of asset classes. Credits holding up a bit better, but still maybe not taking off as much as might have been expected.

207

00:37:43.760 --> 00:37:56.449

Lester, Ashley: a set of asset classes that, that we're going to continue to watch, and that, you know, I think the world needs greater transparency on and understanding of in order to make important allocation decisions.

208

00:37:57.350 --> 00:38:15.009

Shanley, Michelle: Yeah, I think that's a great point to conclude on, and perhaps, you know, AI is going to help us and others bring more transparency faster to this asset class and to, you know, the ultimate end investor. So, be excited to see where we go from here.

209

00:38:15.130 --> 00:38:18.900

Lester, Ashley: We do have some plans there, Michelle, but that's gonna have to be another episode, I'm afraid.

210

00:38:18.900 --> 00:38:25.349

Shanley, Michelle: I think we're teeing up the year-end episode here. What a pleasure to talk with you today, Ashley.

211

00:38:25.650 --> 00:38:27.650

Lester, Ashley: Thank you, Michelle, it was a great conversation.

212

00:38:29.120 --> 00:38:33.470

Collevocchio II, Joe: Okay, very well done. Now, if you would turn off your, your, Ä¶

213

00:38:33.710 --> 00:38:36.700

Collevocchio II, Joe: Separate recordings, please. Yeah. I'm gonna stop recording here.

Adam:

That's all for this week. Our thanks to Ashley and Michelle, and of course to all of you — whether you're watching or listening. Remember, you can find more from our Quarterly In Focus series at MSCI.com.

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