



# MSCI Inc. Quarterly Update

August 1, 2019

MSCI Inc. has completed a strong first half of 2019, with strong momentum across the firm. During this period, our board members and management team undertook our annual strategic planning process where we reviewed relevant client dynamics, industry developments and MSCI capabilities, with the goal of ensuring we are prioritizing and capitalizing on the most attractive opportunities. We came away from this process with an overwhelming sense of excitement about the future of MSCI.

Our excitement comes from the enormous opportunities we see across key focus areas including new, high growth content such as ESG, factors, fixed income and real estate and other private assets. Additionally, we see attractive opportunities in new client areas such as wealth management, key geographies such as Asia, and index derivatives listed by exchanges and issued by broker dealers. These opportunities, combined with new distribution and content-enabling technology such as MSCI Beon,<sup>TM</sup> will help propel a long trajectory of growth. We believe the content and capabilities that we are delivering in these areas will be mission critical to the investment industry of the future, and we are in a strong position to deliver them.

The second quarter was another solid period for growth across major client and product segments. We believe we have only scratched the surface of what is possible in key growth areas and are uniquely positioned to deliver actionable solutions that help clients prepare for, and embrace, the future.

## Client updates/wins

We continue to grow our existing offerings by cultivating and expanding relationships across our client base and serving the needs of different client segments. Investments in differentiated content and enhanced scale and efficiency are paying off by helping us manage costs, innovate faster and close new business, with key wins across new and existing clients. We have worked to drive outsized growth by educating clients about how our tools and solutions can help them build better portfolios and develop greater understanding of the portfolios' drivers of risk and return.

In recent quarters, we have highlighted robust growth across client segments. The second quarter of 2019 was yet another strong quarter, with several notable wins.

## Taking a holistic approach

Asset owners continue to turn to MSCI. In the second quarter, a large teachers' retirement system in the Midwest made an allocation to a multi-factor strategy in its U.S. portfolio. The initial investment allocation will be implemented through a separately managed account (SMA) and will be benchmarked to the MSCI USA Index, displacing the Russell 1000 as the account's standard domestic benchmark.

Our holistic approach and factor expertise played a large role in winning this new business. Knowing that this asset owner's investment team views factors as a bridge between active and index-based equity management, we worked to educate the fund's investment consultant about MSCI's standard factor indexes, as well as our factor index construction methodology.

Clients in our wealth management segment also recognize and benefit from the value we deliver across all our products, turning to our factor modeling and portfolio construction tools to meet their end-clients' needs. We had several key wins over the quarter, including USD 2 billion across two Sector Neutral Quality Indexes and a key benchmark win for the MSCI China Index.

### **Partnering with asset managers**

We deliver value for asset managers in many ways. One emerging growth area is using technology to make it easier for clients to use our offerings to drive revenue, or sales enablement, in the face of continued fee pressures. Asset managers are turning to our tools and solutions to help construct differentiated products and support unique positioning of their products to their clients.

For example, a large asset manager in Canada turned to MSCI for two separate but related solutions. The first was a bespoke sales enablement tool integrating the Barra® Optimizer and Barra® Factor Analytics into RiskMetrics WealthBench. This tool will allow them to quickly and easily generate custom proposals for their financial adviser clients. The second was for a monthly enterprise-risk dashboard used by the manager's executive committee, which helps them oversee the investment performance and risk of the entire business.

Clients also look to MSCI to help them drive operational efficiencies and create scale to better deal with the challenges of a consolidating industry. For example, the merger of two large clients resulted in an increase of revenue — rather than a cancellation of services. This merger will result in the creation of one of our largest clients in the region when the deal closes. This new contract will expand the client's use of MSCI tools from pure middle-office implementation to the front office. Our products will help them integrate processes and drive a consistent risk and performance management framework across the new organization.

### **Product updates/enhancements**

To help drive growth and differentiate ourselves across client segments, we continue to invest in areas such as our Analytics technology and content, equity index licensing for use in derivatives and ESG offerings.

### **Adapting to a low-carbon economy**

ESG adoption and the focus on sustainable investing and climate change continue to gain momentum. MSCI is a leader in providing data, analytics, indexes and research to support ESG integration into clients' investment processes. We are highly focused on providing clients with the tools and data they can use to create long-term and sustainable portfolios.

In the second quarter, we announced the launch of the MSCI Climate Change Indexes. These seven geographically focused indexes reweigh securities based on the opportunities and risks associated with the transition to a low-carbon economy. These indexes are tools that enable institutional investors and wealth managers to integrate climate-risk considerations into their global equity investment processes. These indexes address climate change in the following ways: mitigating risk by reducing exposure to stranded assets and long-term environmental risks; capturing disruptive opportunities through increased exposure to companies providing environmentally friendly technologies and solutions; and

promoting stewardship by favoring the behavior of companies that improve operations, develop long-term strategies and increase transparency about climate risk management.

Clients have recognized our position as a leader in this category across asset classes. In particular, we see a high level of interest from clients looking for ESG ratings of fixed-income securities. In the second quarter, we prevailed over key competitors to win a contract with a top global asset manager in the Americas, which now subscribes to MSCI ESG Ratings and MSCI ESG Controversies across our entire fixed-income coverage universe. This manager was a new MSCI ESG client.

We also had key ESG wins in the EMEA and APAC regions. Notably, a London-based international asset management firm turned to MSCI ESG Ratings and MSCI ESG Research to help ease climate-related reporting to clients and regulators through a process backed by our best-in-class data. And in Asia, one of Japan's largest asset managers, and an existing Index client, became an ESG client, leveraging our research for engagement and integration with front-office strategies.

### **Continued innovation**

Earlier this year, we announced our latest factor innovation, the MSCI Multi-Asset Class (MAC) Factor Model, a multi-tiered model that helps investors analyze key portfolio exposures at different levels of granularity across asset classes through an integrated and consistent framework. This new model has already been well received by our clients. They have seen its value in analyzing firmwide position data and generating risk reports for the total portfolio, as well as its ability to combine a factor-focused view with value-at-risk (VaR) numbers.

Custom indexes represent one of our fastest-growing areas. We worked closely with a client to develop and launch an innovative new index series, the MSCI Call Overwrite Indexes. These custom indexes will serve as benchmarks for their family of active, closed-end equity income funds that employ option-overwrite strategies. We developed the index methodology and worked very closely with one of the largest exchanges, which serves as the calculation agent, to bring transparency and consistency to the index design. This launch not only demonstrates our ability to innovate and help clients achieve their objectives, but also provides a new use case we hope to replicate with other asset managers.

### **Inside MSCI**

As the investment world becomes more complex and competitive for our clients, MSCI becomes an even more valuable partner. Our suite of products and services can help investors achieve their objectives more effectively and efficiently and differentiate themselves in a crowded, ever-changing marketplace.

One way we do this is by strategically building the strength and knowledge of our client coverage team. This quarter, key senior hires in Asia, our fastest-growing region, helped us drive growth in key products such as ESG and in large markets such as South Korea, Australia and New Zealand.

We have also continued to attract experienced talent within the technology team, as we work to accelerate the pace of innovation and developer productivity, expand our program management capabilities and refocus the technology driving our factor analytics and model engineering.

Looking ahead to the second half of the year, we will continue investing in our people and in high-return projects to accelerate top-line growth, increase profitability and create more value for our shareholders.

## MSCI and the future of investing

As we strive to improve how we operate, we never lose track of our purpose: to power better investment decisions for a better world. MSCI works to address investors' needs to build better portfolios with deeper insights of key drivers of risk and return. Our industry-leading solutions help clients solve critical investment problems, which involve asset allocation, portfolio construction, performance attribution, risk management and regulatory compliance. Our growth strategy has three key pillars:

- **Expand our existing offerings.** We continue driving growth by expanding use cases, helping existing and newer client segments see how our solutions help them solve challenges.
- **Execute in-flight opportunities.** We are enhancing our technology platforms, such as MSCI Beon,<sup>™</sup> to allow greater flexibility, capabilities and more scalable solutions. We are expanding our fixed-income capabilities by integrating ESG and factors into them.
- **Capture the next wave of growth opportunities.** It is essential we stay ahead of where clients' needs are headed. Whether a shift from public assets to private, from active management to passive, from short-term gains to long-term sustainable investing, we are focused on areas that will help us achieve our financial objectives.

This strategy works hand in glove with major trends transforming the investment world.

- **The globalization of investments.** Investor portfolios have become increasingly global as many stock markets have become more accessible to global investors. MSCI's partial inclusion of China A shares in its key indexes reflects this change, while our risk models, factor insights and MSCI ESG Research analyses help investors make better portfolio decisions.
- **The importance of risk management.** The 2008 Global Financial Crisis helped bring risk management to the heart of the investment decision-making process, providing critical lessons on how leverage, liquidity and the possibility of contagion can affect how investors view risk. Through MSCI's risk models, including our factor-crowding model and stress-testing capabilities, investors can better understand their risk exposures.
- **The growing use of factors.** More than 40 years ago, Barra – now part of MSCI – pioneered the use of factors, such as value, momentum and volatility, in understanding the drivers of risk and return in equity portfolios. Our multi-asset-class factor models extend to other asset classes globally, and our factor classification standard – MSCI FaCS<sup>™</sup> – provides a common framework for factors.
- **A mounting focus on sustainable investing.** Investors are increasingly looking at long-term, sustainable investments – also known as ESG investing. This approach helps them identify long-term ESG risks and opportunities. Ratings from MSCI ESG Research provide insight into the drivers of a company's ESG profile.
- **Public and private assets.** The mix of investable assets is changing. Investors are looking to private assets, including real estate and private equities. They need better tools and data to analyze this increasingly complicated universe.
- **The rise of wealth management.** Individuals are increasingly responsible for saving for retirement and health care. Wealth managers, who help manage their assets, are seeking cutting-edge portfolio management tools, including our indexes and factor models.

### About MSCI Inc.

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 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](http://www.msci.com).

### FORWARD-LOOKING STATEMENTS

This quarterly update contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to future events or to future financial performance and involve known and unknown risks, uncertainties and other factors that may cause MSCI's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential" or "continue," or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond MSCI's control and that could materially affect actual results, levels of activity, performance or achievements.

Other factors that could materially affect actual results, levels of activity, performance or achievements can be found in MSCI's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") on February 22, 2019 and in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. If any of these risks or uncertainties materialize, or if MSCI's underlying assumptions prove to be incorrect, actual results may vary significantly from what MSCI projected. Any forward-looking statement in this quarterly update reflects MSCI's current views with respect to future events and is subject to these and other risks, uncertainties and assumptions relating to MSCI's operations, results of operations, growth strategy and liquidity. MSCI assumes no obligation to publicly update or revise these forward-looking statements for any reason, whether as a result of new information, future events, or otherwise, except as required by law.