Enabling customization at scale with MSCI QIS

Jenna
Investors today are increasingly interested in personalized and tax advantaged investments. Wealth managers and asset managers that seek to differentiate their solutions by providing products personalized to reflect and investors strategies and values of scale. Joining us today to talk about the recently launched MSCI Quantitative Investment Solution, or K-Swiss, we have Marc Carver, Jay Dermody and Joseph Wickremesinghe from MSCI.

Jenna
Gentlemen, it's great to have you all with us. So this is a hosted, scalable and easy to integrate optimization solution that helps asset and wealth managers to construct and implement tax optimized and personalized portfolios at scale. Starting with you, Marc, what's driving the need for a solution like this today, and how does this help portfolio managers?

Mark
Well, great to see you, Jenna. I think it's important to emphasize some of the things you actually said in your opening. That Q&A well, might sound like a mouthful. It provides really important solutions to clients and I also want to restate some of the things you said, which is this is a hosted cloud native solution that will enable both asset managers and wealth managers to create those personal sized portfolios for investors.

Mark
Why? And what's the growing demand? Well, what we know is today that many individual investors have a desire, almost an expectation that their investments will be personalized across a number of dimensions. Those could be the types of exposures. But increasing only is clients want those portfolios to reflect their tax objectives so that it is a 1 to 1 scenario versus a broad tax management that the portfolio may have offered to everybody.

Mark
We know that this demand for personalization creates a challenge for asset and wealth managers. A scale challenge. Specifically, our solution solves that scale challenge by allowing these asset managers and these wealth managers to build personalized portfolios that leverage MSCI Best in class content, in calculations, calculation engines, and then ultimately providing that 1 to 1 outcome, more personalized portfolio for the investors that they're serving.

Jenna
And diving deeper into the solution. J How does it help portfolio managers create tax optimized and personalized portfolios at scale?

Jay
Absolutely. Thanks, Jutta. So it starts first with the investment objectives, the risk appetite, and most importantly, the tax circumstances of the underlying account holder and MSCI sequential investments versions provides a number of tax advantaged tax templates that the proclaimed you can use to match against those investment needs and apply to their particular portfolios. For example, we have the tax neutral template that enables a portfolio manager to track as close as possible to the model portfolio while prioritizing any avoidance of net capital gains that would require a tax bill at the end of the year.

Jay

Now, the underlying model portfolio could be a actively managed smart product, or it could be an index itself, as you would see in a traditional direct indexing solution. But either way, we can apply the power of MSCI as quantitative solutions with the compute scalability that Marc mentioned earlier in order to provide that personalized solution at scale to typical managers.

Jenna
And what other kind of personalization can be done using this solution?

Jay
Yes. So it's not just your traditional kind of sector exclusions or industry exclusions that you would want to have for the portfolio. But also the solution integrates MSCI is a content sense itself. Right. So our ESG content, climate, context factor content all available to provide better personalization to the investor, whether those are traditional business involvement, screens or factor tilts, we can include that as part of the portfolio construction process in order to provide a more personalized solution that matches the needs and values of that account holder.

Jenna
Turning to you now, Joseph, what are the different types of situations that can determine which tax management strategy a wealth manager might use?

Joseph
Thanks, Jennifer. Tax management strategy a wealth manager might use is very much dependent on their client's individual situation because each client unique. For example, we may have a client that has realized a significant capital gains at the beginning of this year and is therefore looking to minimize their tax bill to what year end they would choose a loss maximization strategy.

Joseph
Another client may have held a portfolio for a long time and accumulated unrealized capital gains in that situation because the portfolio is hard to rebalance. The portfolio manager might instead decide to look at a cannibalization strategy to choose the method which might be able to available for a tax efficient gift. A third client may just be looking to track a model or a benchmark in a tax efficient manner, and in that case, the wealth manager might choose tax neutral strategy.

Joseph
So there are lots of different options available, and the wealth manager is able to change the strategy as needed.

Jenna
And following up on that, Joseph, what are some of the trade offs here associated with this strategies that you just described?

Joseph
The most significant trade off the wealth manager needs to consider is between the amount of tracking out risks that might incur and the amount of tax that they can say. As you look to realize tax, you look to save taxes and realized capital losses, you typically tend to incur tracking error. So for example, if a portfolio manager, a wealth manager who chooses a max loss maximization strategy may find that their client portfolio takes on more risk as a result.

Joseph
Another significant impact is the portfolio turnover. As you look to increase your loss, tax efficiency and maximize more losses, you can tend to also have a negative impact on portfolio turnover. For example, in a rising market, you might find that portfolio turnover is lower due to a due to the fact it's harder to relate losses and in a falling market turnover might be higher.

Joseph
So at the impact on portfolio turnover is probably one of the more significant things a wealth manager has to consider when choosing which strategy to apply.

Jenna
And finally, Mark, doesn't the industry already do this and what's new in this solution?

Mark
So, Jen, I think what is new here are two things. First is integration and the second is scalability. What I mean by integration is that investors don't have to go to multiple places to utilize this solution. Instead, they integrate it into their existing workflow where they're primarily doing their their day to day activities. The second piece in J hinted at this quite well is that we're integrating Msi's calculation and optimization engines with MSCI Best in class content around factors, climate, ESG providing a more holistic, personalized solution.

Mark
The second piece here is that we're helping to solve that scale challenge. When an asset manager or a wealth manager has to apply a personalized solution across many dozens or hundreds or thousands of accounts. That presents a challenge of scale. We're hopefully solving that scale issue. So what's new is not the idea or the need for this, but instead the ability to integrate it into your workflow and do that at speed in its scale.

About MSCI