

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

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. To learn more, please visit www.msci.com.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or disseminated in whole or in part without prior written permission from MSCI.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investable assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on www.msci.com.

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of www.msci.com.

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

Privacy notice: For information about how MSCI ESG Research LLC collects and uses personal data concerning officers and directors, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.