BURSA INSTI SECTORIAL SERIES
INTRODUCTION TO MSCI INDEXES

Bursa Malaysia, together with CGS-CIMB Securities, had invited MSCI to give investors an introduction to MSCI indexes and the methodology on ground rules for MSCI Indexes. Key takeaways below.

- The MSCI global equity indexes have evolved to appropriately reflect the international investable opportunity set of equities while addressing the changing and expanding investment interests of cross-border investors.

- A high-level overview of the MSCI Global Investable Market Indexes (GIMI):

Overview of the MSCI Global Investable Market Indexes (GIMI):

  o **The Global Opportunity Set**: This refers to the aggregation of all eligible equity securities covered by MSCI using a building block approach with a rules-based, consistent and transparent methodology. This allows institutional investors to measure exposure to all sources of equity returns using a single global framework.

  o **Building the Investable Universe**: Multiple investability screens ensure the index represents the investable opportunity set for international institutional investors.

    - Equity minimum size requirement of USD233m as of Nov 19 semi-annual index review
    - Equity universe minimum float-adjusted market cap requirement (50% of equity minimum size)
    - Minimum liquidity requirements (15% ATVR – 3 and 12 months, 80% 3-month frequency of trading for EM)
    - Minimum foreign inclusion factor (FIF ≥ 0.15)
    - Minimum length of the trading requirement of at least three months for small IPOs

  o **Defining size segments**: The size and coverage Target Area are used to determine the number of companies and the associated size cut-off that will define a size segment within each market. In the markets where both size and coverage objectives cannot be met, the size objective is assigned a higher priority, i.e. the size objective can be reached at the expense of breaching the coverage objective.

    - **Size segment**: Free float-adjusted market capitalization market coverage target ranges are applied to the market investable equity universe:
      - 65 to 75% in each market for the Large Cap Index
      - 80 to 90% in each market for the Standard Index
      - 98.5 to 100% in each market for the Investable market index

    - The global minimum company size range for each segment is defined by:
      - Determining the Global Minimum Size Reference based on the Developed Market Investable Universe
   - Specifying a range of 0.5x to 1.15x the Global Minimum Size Reference

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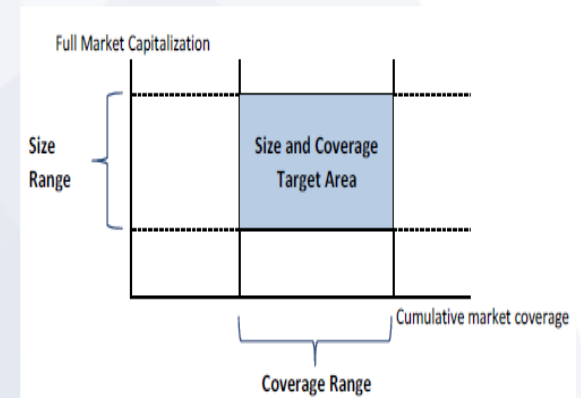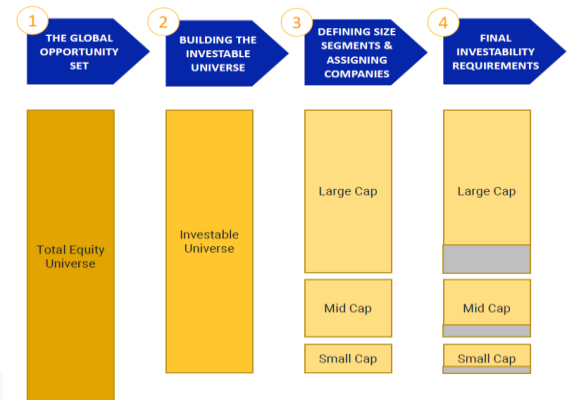
o **Final Investability Requirements**: The application of more stringent additional investability requirements ensures further the replicability of MSCI ACWI.

- Minimum free float-adjusted market capitalization requirement: For IMI/Standard Size -segments, the free float-adjusted market capitalization must be >50% of market size-segment cut-off for the IMI/Standard Size-segments. Securities missing these requirements are not included in any Size-segments of the MSCI GIMI.

- Minimum foreign room requirement: For a security that is subject to a Foreign Ownership Limit (FOL) to be included in the Investable Market Index at its entire free-float adjusted market capitalization, the proportion of shares still available to foreign investors relative to the maximum allowed (referred to as "foreign room") must be at least 25%. However, this does not apply to Malaysia.
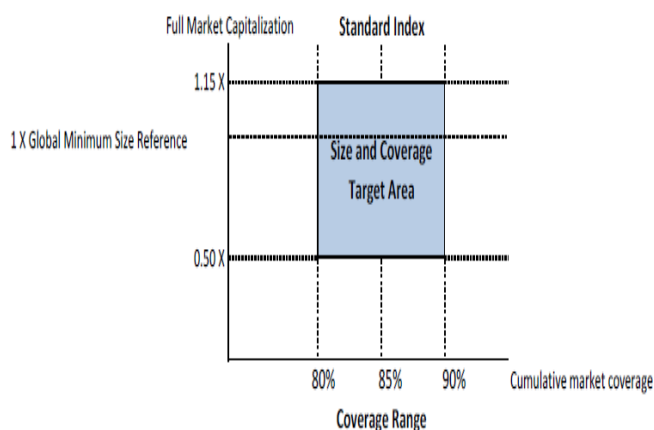
- Maintaining the Index:

  o Semi-annual index reviews (SAIR) in May and November of the Size Segment which include:
    - Updating the index based on a fully refreshed equity universe.
    - Taking buffer rules into consideration for migration of securities across size and style segments.
  o Quarterly index reviews (QIR) in February and August:
    - Including significant new eligible securities (e.g. IPOs which were not eligible for earlier inclusion)
    - Allowing for significant moves of companies within the size segment via wider buffers than SAIR
    - Reflecting the impact of significant market events

  o Ongoing event-related changes. E.g. significantly large IPOs are included after the close of the company's 10th day of trading.