

MSCI Launches New Japan Equity Factor Models

This next generation of Barra models feature new factors including sustainability, improved risk forecasting methodology designed to adapt to market regimes and an enhanced estimation universe for the Japan market

Tokyo – January 19, 2023 – MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, today announces the launch of the next generation of [MSCI Japan Equity Factor Models](#).

Designed to help investors better understand the factors that drive portfolio risk and performance as market conditions change, the models feature three new factors:

- **Sustainability** includes both an ESG factor and a Carbon Efficiency factor that measures a company's emissions relative to its size
- **Crowding** uses multiple measures to assess how a stock is priced relative to its own history
- **Machine Learning** leverages data science and natural language processing to evaluate the relationships between different variables that impact a stock's returns

Building on MSCI's five decades of factor research and developed in consultation with some of the world's largest investors, the latest models enable institutional investors to construct portfolios across new and familiar factor dimensions; run comparisons to industry peers and benchmarks; and provide enhanced transparency into portfolio characteristics through improved handling of IPOs, improved coverage, and dynamic industry exposure analysis.

The two new models include the MSCI Japan Equity Factor Model that is designed for long-term investors and MSCI Japan Equity Factor Trading Model for investors managing strategies with shorter investment horizons.

The new features in the MSCI Japan Equity Factor Model include:

- An **Adaptive Factor Covariance Matrix** methodology to improve portfolio risk forecasts by modulating the impact of extreme factor returns on factor correlation based on the market regime
- **Addition of an ESG factor** to enable understanding of portfolio exposure to ESG and its impact on performance
- **Addition of a carbon efficiency factor** to support net-zero investing and understanding how a company's carbon emissions impact equity portfolio risk and return
- Addition of Machine Learning, Stock Crowding and Seasonality factors to capture new sources of short-term risk
- An implied volatility adjustment to factor covariance matrix to improve risk forecast by incorporating forward-looking information contained in the Nikkei Stock Average Volatility Index (NKVI)

The new model will be available through multiple distribution channels, including Snowflake’s Data Cloud, select third-party partners and from MSCI directly via the proprietary Barra Portfolio Manager and BarraOne® platforms.

Mark Carver, Head of Equity Portfolio Management and Equity Factors at MSCI, said: “Investors have told us repeatedly that the new risk measures in these models, combined with the introduction of sustainability factors, are crucial for an evolving investment landscape. We are excited to introduce these innovative models to our clients in Japan and believe they will enable our clients to better understand the drivers of their portfolio risk and return, construct differentiated portfolios, and effectively respond to changing market dynamics.”

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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.

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