

# MSCI INDEXES WITH IDCO FAIR VALUE PRICING\*

**MSCI Indexes with IDCo Fair Value Pricing make it easier and simpler for active mutual fund managers, pension plans and consultants to explain artificial tracking error between a fund's fair value adjusted NAV and an MSCI index calculated using closing prices.**

Two industry leaders – MSCI and Interactive Data – collaborate to create the MSCI Indexes with IDCo Fair Value Pricing, which help active fund managers explain the artificial tracking error between a fund's fair value adjusted NAV and an MSCI index calculated using closing prices.

## KEY BENEFITS

The MSCI Indexes with IDCo Fair Value pricing offer the following benefits to active fund managers, pension plans and consultants:

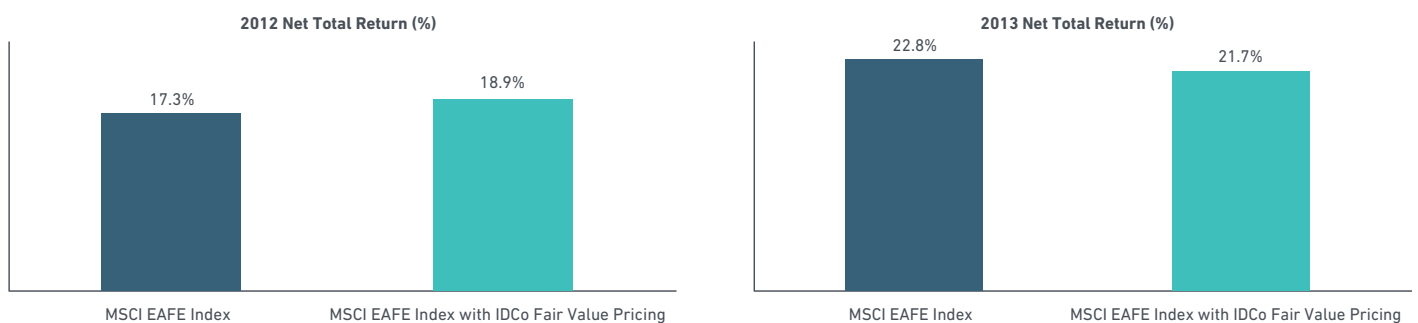
- **Marketing and Reporting** – Explain active mutual fund tracking error to clients
- **Internal Reporting** – Explain return dispersion for active mutual funds to investment boards
- **Fund Evaluation and Research** – Support active mutual fund research process

## KEY METHODOLOGY

The MSCI Indexes with IDCo Fair Value Pricing are calculated using fair value adjustment factors as of the close of the New York Stock Exchange provided by Interactive Data's (IDCo) Fair Value Information Service.

- After the close of the exchanges in Americas (t), the initial security weights for the rebalanced index for t+1 are calculated
- For each constituent, the Fair Value return is calculated using the FV evaluated adjustment factor from Interactive Data and the 4:00P.M. EST WM/Reuters exchange rate
- The fair value adjusted index return is then calculated as the weighted sum of the constituents' fair value returns
- The fair value adjusted index level is derived by multiplying this fair value adjusted index return with the official USD closing level of the index for day t to derive the fair value adjusted index level

**FIGURE 1: FAIR VALUE ADJUSTMENT COMPARISON**



Source: MSCI, based on simulated data.

\* The MSCI Indexes with IDCo Fair Value Pricing are only available outside the European Union.

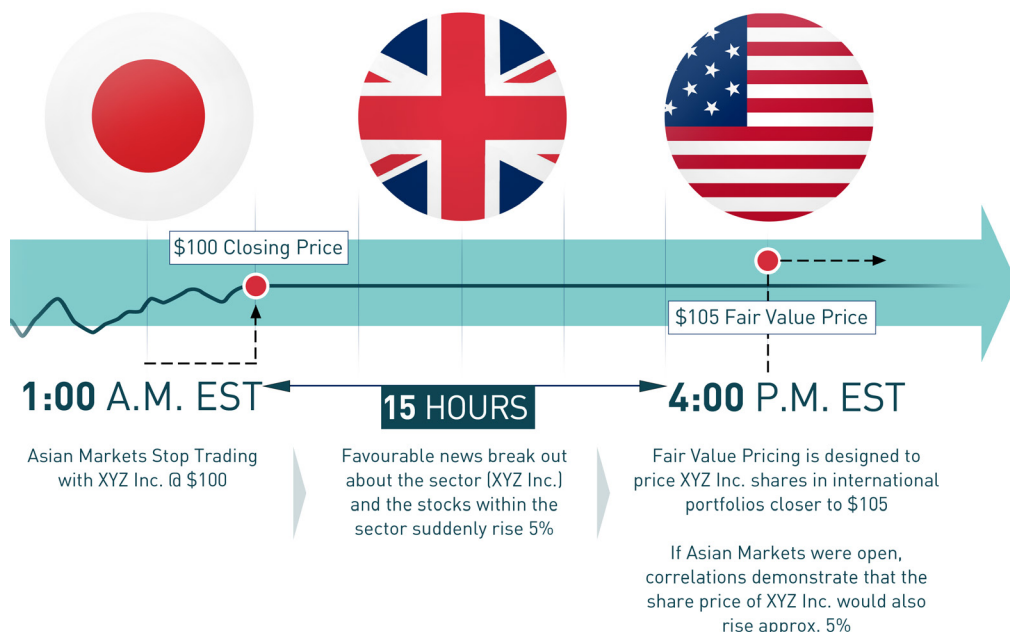
Figure 1 shows a significant fair value adjustment in 2012 for the MSCI EAFE Index following a rally in the US market on Dec. 31, 2012. A fund using fair value to calculate its NAV and comparing its performance to an index calculated using closing prices would likely have shown significant artificial outperformance. The situation would reverse in 2013. MSCI Indexes with IDCo Fair Value Pricing can help to explain these differences and disseminating custom indexes.

Any MSCI index may be used as a starting point for a customization.

Clients specify the customization criteria and MSCI implements, calculates and maintains the index based on the clients' specifications.

Figure 2 illustrates what would be the adjusted Fair Value price taking as an example a Japanese company. The trading price of XYZ Inc. shares closed at \$100 USD on the Japanese Exchange at 1:00 A.M. EST. Afterwards, there were some positive news that led the sector to a 5% increase. By 4:00 P.M. EST – when the Americas exchanges close – the Fair Value Pricing correlations demonstrate that the shares in international portfolios closed approximately with a \$105 USD Fair Value Price.

**FIGURE 2: FAIR VALUE HYPOTHETICAL EXAMPLE**



**INDEX LICENSING**

Ongoing Fair Value Adjusted Index Levels for 130+ flagship indexes will be available on subscription to the MSCI Fair Value Index Module with IDCo Pricing. Indexes derived from the MSCI ACWI IMI security universe. The MSCI Indexes with IDCo Fair Value Pricing are only available outside the European Union.

**INDEX DELIVERY**

Index and security level data are distributed daily through vendors or via direct delivery (Internet FTP).

**INDEX HISTORY**

Daily index level history is available back to 2005.

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