Overview of SEC 18f-4 Report

Thank you for joining me in this session where I will walk you through MSCI solution to support the analysis requirements regarding the SEC Rule 18f-4.

The purpose of this regulation is to provide an approach to regulate the use of fund derivatives to address investor protection concerns. In order to do so, a fund needs to implement a derivatives risk management program, including stress testing, backtesting, internal reporting, and escalation. MSCI can help you support these requirements through our SEC Derivatives package. In this video, I will walk you through what our offering includes, in going through the details of our SEC Derivatives dashboard report.

Our SEC Derivative dashboard report was built to comply with the specific requirements from the regulation. In the top-right table, you'll be able to see a 'Limit' section. In this section, we define the Absolute and Relative VaR. If the client chooses to use Relative VaR, they can define an index as a benchmark, or a fund's own portfolio, which doesn't include derivatives as a reference portfolio. Under the Relative VaR, the fund is not permitted to exceed 200% of the VaR of the fund's designated reference portfolio. On the other hand, if a client is unable to identify a designated reference index, they can use Absolute VaR test. We offer this analysis in the report as well. so clients can verify if, according to the rule, the Absolute VaR is less than 20% of the fund net assets.

The exposure to derivatives is also an important part of this regulation. In this same section, you can look at the derivative exposure of your portfolio in a gross and net value. The derivative exposure limit is 10% for the portfolio. Funds are exempted to report to the SEC if the exposure to derivatives is less than 10% of net assets.

In the left section, you can see the portfolio value statistics, where including Present Value, Gross Notional, VaR, Expected Shortfall, Delta Adjusted, and Bond Equivalents value. These hard values are used according to the regulation requirements, and the position types in your portfolio. In the next sections, we can look at the Gross Notional exposure by asset type and the VaR by risk type. While on the right side, you can look at the stress test based on our extensive library of predefined historical events and forward-looking macro events. In this section, you can look at how your portfolio will react under these stress tests.

In the next pages, we provide supportive analysis in order to comply with the risk management program suggested by the regulation. We provide a breakdown of VaR by asset type, a stress test by asset type, and a derivative exposure by asset category. In each of these sections we are using the same asset category and we are providing more details in this report.

In the next section, we continue providing supportive analysis, such as Marginal VaR summary and Incremental VaR summary. All these sections are supported by a diagnostic report that is supplied as well, accompanying this report. The diagnostic report is an Excel version of this dashboard that you're looking at with position-level information of all the statistics and methodologies used in this report. It's important to notice that the client can define their own VaR methodology and choose the risk model that they feel comfortable with. The options for VaR methodology are Monte Carlo, Historical, and Biometric. You can choose as well your decay factor and your calibration period, in order to support the VaR calculation that you're looking for.

As part of the regulation, we're also including a VaR testing report. In this VaR testing report, we're providing the accessions in the analysis that we're using for the Daily VaR and Simulated P&L. These reports are a part of our SEC Derivative package. this is all for this session, and thank you for being here with us.

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**.