



Small Cap Indexes

Think bigger about small caps



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Introduction

MSCI has included small capitalization companies (small caps) in its indexes since 2001. With the launch of our flagship Global Investable Market Indexes (GIMI) methodology in 2008, the construction of our small cap indexes was aligned with our standard indexes and a new building block approach to equity universe coverage began.

In the two decades since the first MSCI small cap indexes were launched, investors have increased their familiarity and comfort with this market segment. Further, both academic and MSCI research has demonstrated that small caps possess unique characteristics that may provide diversification benefits and enhance potential returns over time. Today, small caps are a key part of MSCI's index offerings.



Sizing the small cap universe

MSCI uses a dynamic approach to classify companies into size segments: large, mid or small cap. We believe that our approach ensures that our indexes remain agile and able to evolve with the markets they seek to capture. The composition of the indexes may change over time as small companies grow and move from the small cap indexes to the standard indexes. The inverse may happen with larger companies which may shrink in size and move from the standard indexes to the small cap indexes.

MSCI performs size segmentation at the country level; because we believe that this allows for a more consistent coverage of the global markets¹.

¹ For more information, please refer to [MSCI's index methodology MSCI Global Investable Market Indexes Methodology](#)

IMI Indexes, covering ~99% of the investable market



Standard Indexes, covering ~85% of the investable market*



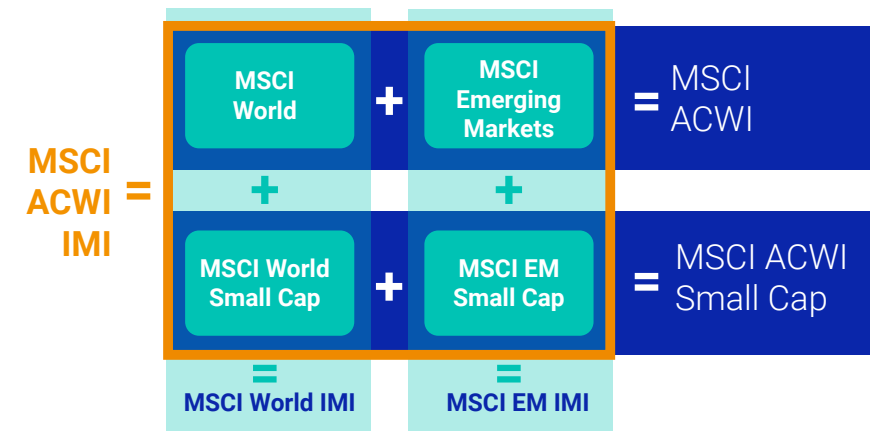
*Indicative, may vary by +/-5%

Small cap indexes, covering ~14% of the investable market



Our **building block** approach

In addition to small cap indexes, investors can also target small caps through broader IMI indexes, which include large, mid or small caps. For example, the MSCI All Country World IMI Index is currently comprised of more than 9,000 securities and is intended to be an exhaustive representation of the entire investable equity universe.



This building block approach also applies to regions and countries. For example, in the case of the U.S., MSCI has three distinct indexes: a standard index covering large and mid-cap stocks (MSCI USA), a small cap index covering only small caps (MSCI USA Small Cap), and an investable market index covering the whole market (MSCI USA IMI).

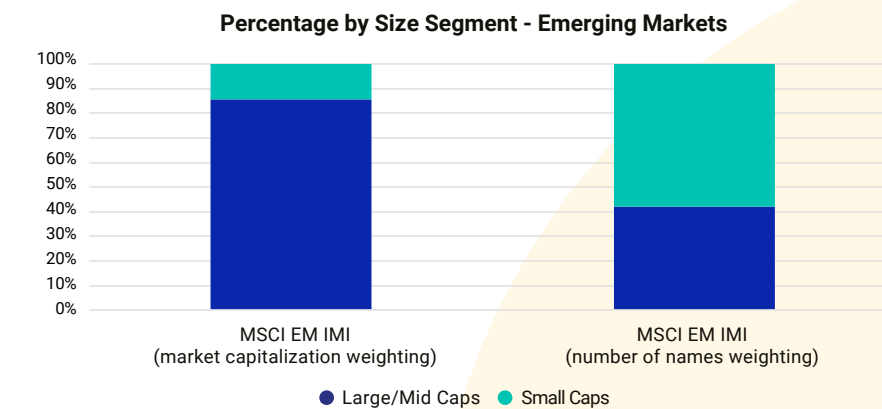
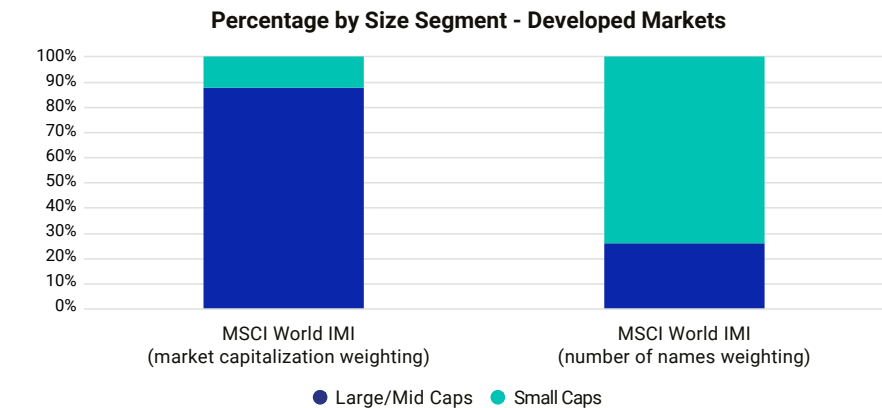
Opting for an IMI index means that an investor may be less impacted by any changes in company size that would lead to a change in such company's size segment classification. If a small company grows and becomes either a mid or a large cap company, this company may move between indexes. This means that if an investor is only focusing on small caps, they may need to divest from that company.



Small but **mighty**

The small cap label applies to company size but not to the size of the small cap investment universe or the size of their return potential. The number of companies in small cap indexes tells a different story. For developed markets, the small cap index contains over 4,200 securities while the standard index, MSCI World, covering large and mid caps has only around 1,500 securities³. In emerging markets, MSCI EM has more than 1,400 securities while the MSCI EM Small Cap has 1,900 securities.

Investing in small caps is not without risks, and these may come in different forms. Small caps tend to be more volatile than larger caps, and maybe be less liquid. This means that they may be more costly to trade.



2 As of September 30, 2023
3 As of September 30, 2023

Source: MSCI, as of September 30, 2023



Tailor your **small cap exposure** to reflect your **investment goals**

Advances in technology, computing power and data availability have enabled us to construct newer, more granular types of market indexes. Using any of the regional or country small cap

indexes, or even regional or country IMI indexes, as a starting universe, investors can target specific criteria that align best with their investment goals and preferences.

Small caps play a larger role in some sectors

While at a country level, the coverage of the standard and the small cap indexes is the same, there are differences at the sector level.

Some of the main differences may be observed in the Industrials and Materials sectors, which are significantly larger in the small cap indexes

for both developed and emerging markets. On the other hand, there are certain sectors that are more significant in large and mid-caps for both developed and emerging markets, such as IT (e.g., Apple, Microsoft, Taiwan Semiconductors and Samsung).

GICS ^{®3} Sectors ⁴	MSCI World Index	MSCI World Small Cap Index
Energy	5.2	5.8
Materials	4.1	7.4
Industrials	10.8	19.9
Consumer Discretionary	10.9	13.1
Consumer Staples	7.2	5.0
Health Care	12.8	9.9
Financials	15.0	14.4
IT	21.7	10.8
Communication Services	7.3	3.0
Utilities	2.6	2.6
Real Estate	2.3	8.2

GICS ^{®3} Sectors	MSCI Emerging Markets Index	MSCI Emerging Markets Small Cap Index
Energy	5.2	2.1
Materials	8.0	13.1
Industrials	6.7	17.1
Consumer Discretionary	13.7	11.4
Consumer Staples	6.2	6.3
Health Care	3.8	9.2
Financials	22.2	10.2
IT	20.2	17.7
Communication Services	9.6	3.7
Utilities	2.6	3.1
Real Estate	1.7	6.1

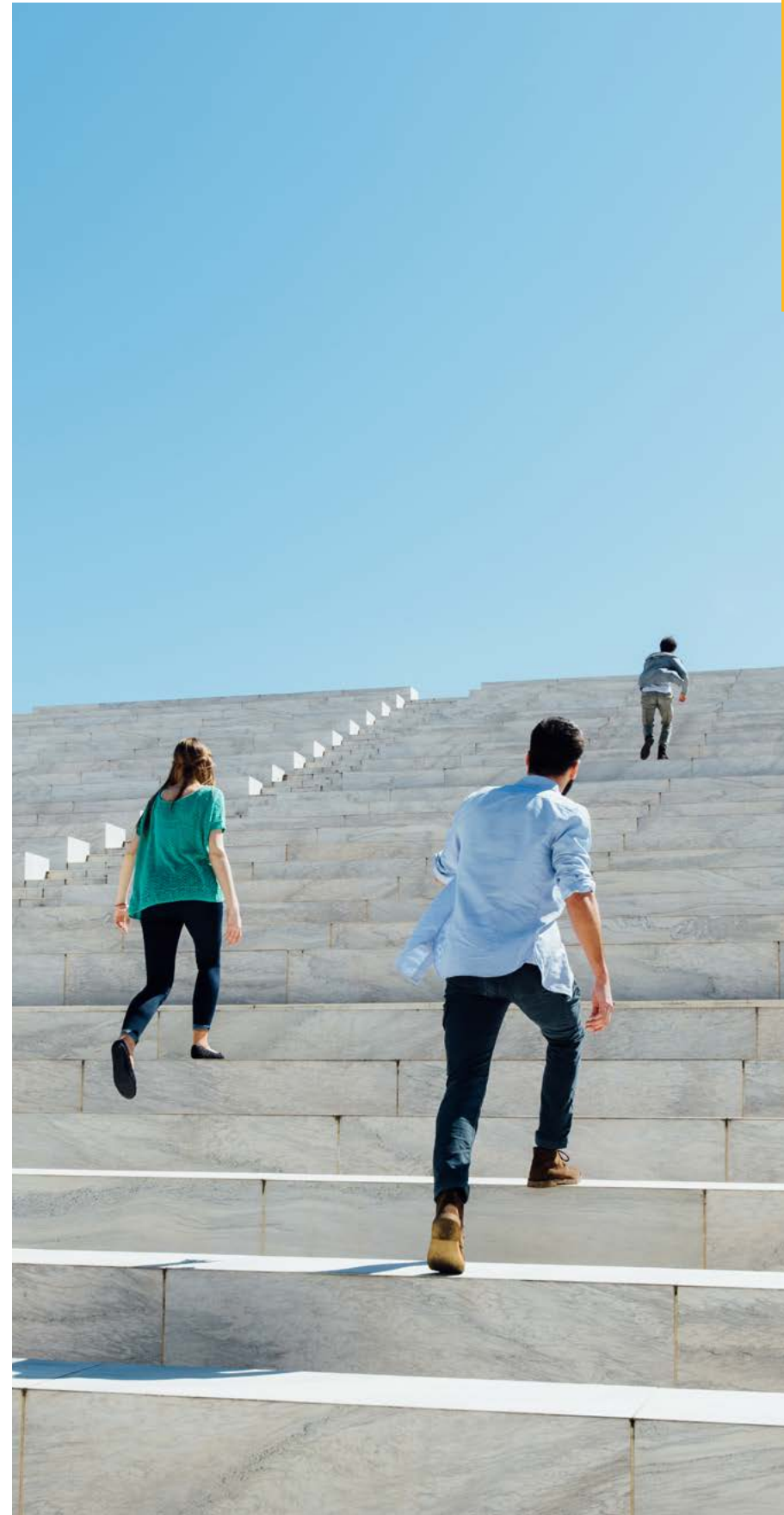
Source: MSCI, as of September 30, 2023

ESG Indexes	Climate Indexes	Factor Indexes	Thematic indexes
Indexes based on ESG criteria and designed to help measure exposure to ESG related risks and opportunities.	Indexes based on Climate metrics and measurements. They are designed to help measure exposure to climate related risks and opportunities.	Indexes are designed to reflect the return of markets defined by style factors such as volatility, yield, quality, momentum, value, size, and growth.	Indexes based on quantitative measurements of macroeconomic, geopolitical, and technological trends that may have far-reaching effects on markets.



Conclusion: Think bigger with small caps

Characterized by precision and objectivity, our global index data and timely research insights can help you to act with greater confidence when evaluating markets, making investment decisions, and building your desired portfolio strategy. We invite you to learn more about our [small cap index](#) offerings and our [Research Insights](#).



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