"Indexing The Short Case Against MSCI"

/ STRONG SELL OPINION /

MSCI Inc. | NYSE: MSCI

SPRUCE POINT CAPITAL MANAGEMENT

INVESTMENT RESEARCH REPORT

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Spruce Point Capital Management

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Spruce Point Has A Track Record With Acquisitive S&P 500 Companies

Spruce Point has a track record of short calls that identified early financial and accounting anomalies in major S&P 500 components that preceded significant share price declines.

Company:	xylem Let's Solve Water	GENERAC	A.O. Smith
U.S. Exchange: Ticker | Enterprise Value	NYSE: XYL: | August 9, 2023 $27.1 billion	NYSE: GNRC | June 22, 2022 $15.7 billion	NYSE: AOS | May 16, 2019 $6.1 billion
Max Decline Since Report	**-17%**	**-60%**	**-30%**
Company Positioning	Leader in global water technology. Acquired Evoqua, a leader in mission-critical water treatment solutions and services.	Leader in home standby power generation and alternative energies.	Leading maker of water heaters and treatment products, boilers, and air purifiers. Fast and sustainable growth in China, allowing for gross margins in excess of industry peers.
Spruce Point's Criticisms	Concerns about the accuracy of the Company's cash liquidity given findings of two sets of financial statements and its ability to meet Wall Street's aggressive financial expectations. We believe that Xylem has failed to achieve its objectives of increasing operating leverage and succeeding in digital sales after its 2011 spin-off from industrial conglomerate ITT Corp. Dilutive deal of Evoqua, which was recently charged with revenue accounting fraud by the SEC and has been under federal investigation by the U.S. Attorney's office, and new concerns around accounting machinations.	To deflect from growing core challenges in its power generator business, we believe Generac is trying to position itself as a new clean energy play to buff its ESG and transparency image. However, our review of its recent M&A roll-up activity to expand its core and clean energy efforts reveal a host of serious concerns. Notably, we question its recent minority acquisition of Pramac in Italy at an irrationally low multiple, and after a review of its foreign financial statements find evidence of ballooning receivables, a hallmark of channel stuffing.	A.O. Smith's China business (30% of Sales) is a broken growth story, whereas management claims a temporary slowdown. Gross margins appear inflated and will likely contract further. China capital expenditure anomalies, notably consistent mis-forecasting. Capex issues often linked to gross margin inflation. Excessive spending on a protracted ERP implementation also often linked to accounting and financial issues.
Successful Outcome	Swift departure of Xylem CFO and CEO after our report where we identified a pattern of failure, financial reporting errors and anomalies. Identified multiple red flags concerning the Evoqua acquisition by Xylem, exposing potential misleading of investors.	Generac's largest solar distributor filed a lawsuit alleging it covered-up defective products. The Company's COO resigned. Generac issued preliminary financial results that blind-sided investors with a slow down in growth. Generac disclosed it received a subpoena related to a grand jury investigation.	AOS admitted an undisclosed material supply chain partner following a report by firm J Capital. In Q2 2019, AOS substantially revised guidance, showing weakness in China with sales projected down 16-17%. AOS fired its head of China after an investigation.

The recommendations shown above are not intended to be exhaustive or represent investment returns following Spruce Point's research campaigns. A full list of all recommendations made over the past twelve months can be found on our website.

Executive Summary

Spruce Point Issues "Strong Sell" Opinion On MSCI Inc. With 55% - 65% Downside Risk

After conducting a forensic financial and accounting review of MSCI Inc. (NYSE: MSCI or "the Company"), a $48 billion dollar S&P 500 constituent and global provider of index, analytics, ESG and private asset financial products and services, Spruce Point has grave concerns about the accuracy of its accounting choices and financial reporting, durability of its growth prospects, and sustainability of its extreme valuation multiple. The world's largest asset managers and capital allocators depend on and must trust MSCI's indices, analytics, and ESG ratings to disburse trillions of dollars globally. However, Spruce Point does not believe that anyone has ever fully indexed, benchmarked or evaluated MSCI's broad range of dubious and aggressive and outright farcical business practices. We lay out the case that MSCI's ESG rating scores as an F and that its stock should be sold or underweighted relative to any large cap global equity index. Our fair value target is 55% - 65% ($190 - $244/sh.) downside risk to MSCI's price.

We believe MSCI is a classic case of a struggling company failing to transform itself while engaging in value-destructive (and even worse nepotism-like) acquisitions and share repurchases with abusive financial reporting and accounting tactics to bolster earnings. We conducted a survey of 60 MSCI clients (~1%) which revealed greater competitive pressures in the last 12 months. Red alert: MSCI's Chief Accounting Officer just resigned, and a Director played a role at SolarWinds which was charged two months ago by the SEC with fraud and internal control failures.

Core Index Business Is Mature And Under Pressure

We Think MSCI Is Price Gouging + Losing Clients

Reputation Risk Is Rising

MSCI's core index business (58% of revenue) is no longer the driving force of innovation it once was, and we find it understates growing competition from exchanges like Qontigo (owned by Deutsche Börse) and Nasdaq that are moving deeper into their client base with more software and data solutions. The segment's Retention Rate has declined for the past four consecutive quarters and it recently appointed a new Head of Index. Approximately 10% and 17% of MSCI's total and Index segment revenue is from BlackRock who is embracing self-indexing, which reduces the need for MSCI. BlackRock's U.S. market share of iShares ETFs is in perpetual decline, its iShares head recently departed, and analysts expect Vanguard will become the new leader. MSCI's fees linked to ETFs have also been in perpetual decline. MSCI's recent purchase of The Burgiss Group ("Burgiss") puts it in greater competition with BlackRock, which could pressure the relationship and fees further. Other macro factors working against MSCI are higher interest rates and a strong dollar. Higher rates have caused total assets of AUM benchmarked to MSCI indices to decline almost double digits since 2021. In Q3'23, MSCI reported a decline in total clients, and it has expanded risk factors that explain reasons why client activity decreases. Absent punitive price increases, we estimate new recurring sales are down 40% in YTD'23. To win in "growth areas" such as thematic ETFs, MSCI recently referenced itself as having to turn into *"a giant equity research shop"*. We believe that the cost and complexity of transforming a large company such as MSCI will be too difficult to surmount. MSCI's index franchise has also exposed itself to reputational risk in pursuit of fees by promoting Chinese indexed ETFs. For example, Congress recently questioned MSCI's role in diverting capital towards Chinese companies included within the index that are possibly engaging in human rights violations.

Multiple Pressure Across MSCI's Segments

ESG & Climate, MSCI's Recent Growth Driver, Is Now Under Increased Pressure	Since 2020, ESG and Climate solutions has been a growth engine with run rate revenue increasing from $138 to $297 million, and margins expanding from 20.5% to 34.8%. We believe the growth spurt is ending not only from ESG pushback, regulatory uncertainty, and ESG's market underperformance, but also MSCI-specific issues that are resulting in client loss. In 2023, MSCI changed its representation that it has a *"Unique Track Record"* to a *"Long Track Record"*. To say that something is unique means that it is one of a kind, or unlike anything else. We view this modification in choice of words, along with MSCI expanding disclosure of competitors such as Bloomberg and Moodys in the recent 10-K, as an indicator that its ESG and Climate business is coming under increased pressure. MSCI also added a pop-up box on its rating page to be used as a sales lead generation before providing its public ratings. When we interviewed a former MSCI executive we were told, "*ESG competition is definitely increasing, especially Bloomberg. MSCI was one of the first but that doesn't mean competitors aren't going to eat away at it. As early as 2023, people were leaving the ESG team. To grow, you have to have consistent sales. They were under target and didn't hit their goals. That business line was struggling."* Lastly, we observe that MSCI is increasing its cost capitalization of development expense, which has the obvious effect of flattering margins.
Analytics Segment Is Also Under Pressure And Anchored By Commoditized Solutions	The Analytics segment is ~26% of MSCI's revenue and ~18% of Adj. EBITDA. As one former MSCI employee with 18 years experience developing models said, "*It's less about brain power – lots of physics PhDs in quant land – and more about the difficult and unglamorous job of sourcing, curating, managing and QA'ing data and the 24/7 operations to ensure updates are there every day, on time, for every asset class, for every model, for every client*." Spruce Point believes artificial intelligence will automate and improve the data management to drive down competitive barriers and fees further. In 2016, MSCI stated its intention to accelerate Analytics revenue growth rate from low to mid-single digits to the upper single digits over the long term. Seven years later, the growth rate has increased modestly to the 6% range (aided recently by punitive fee increases) but has averaged just 4.5% over the time-period. The bulk of the segment was built with acquisitions dating 15 – 20 years ago and are still anchored by RiskMetrics and Barra solutions. Not surprisingly, a recent industry expert interview opined that MSCI's models are becoming commoditized. Recent results indicate that the segment is under increased pressures. For example, Spruce Point observes that for the first time in recent years, MSCI experienced year-over-year declines in the organic sales growth, Adj. EBITDA margin and client Retention Rate metrics. Retention rate has fallen in three of the last four quarters while Adj. EBITDA margin growth is declining after a period of strong expansion. Now, MSCI is referencing higher compensation costs across cost of revenue, selling and marketing and G&A, offset by lower R&D compensation expense after a period of cost capitalization. Our interpretation is that MSCI is likely experiencing wage pressures retaining employees who may be looking to depart while customers churn.

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MSCI's Acquisitions / Alliance Are Dubious

Needing A Growth Spark, MSCI Has Exhibited An Alarming Pattern of Nepotism-Like Acquisitions and Alliances With MSCI / Morgan Stanley Alums	MSCI was formerly Morgan Stanley Capital International where its roots originate. MSCI IPO'ed in 2007 and Morgan Stanley was its lead underwriter. Surprise, surprise! We find that MSCI has recently engaged in a suspicious pattern of making acquisitions and alliances that benefit Morgan Stanley and MSCI alums. Overall, we question if these deals are really in the best interest of MSCI shareholders, or the former colleagues in the circle of Chairman and CEO Fernandez. We term this nepotism-like dealing and there are many recent examples. For instance, in 2021 Mr. Fernandez became Lead Independent Director of Royalty Pharma plc (NYSE: RPRX) which receives fees from MSCI for advice on science-based thematic ETFs. Morgan Stanley is a top shareholder of RPRX. Mr. Fernandez's son became employed at RPRX around the time of his father's appointment. In 2022, MSCI struck an alliance with Menai Financial Group in the digital asset space to provide MSCI advice and terms were undisclosed. Lo and behold, Menai was founded by Zoe Cruz, former co-President of Morgan Stanley. In 2023, we find it remarkable that MSCI paid 10x and 68x sales and EBITDA for Burgiss despite numerous issues we will detail in this report. Jay McNamara was President of Burgiss and was formerly an Executive Committee member at MSCI before joining Burgiss. MSCI hasn't disclosed how much Mr. McNamara personally benefited from the transaction. Lastly, in December 2023 MSCI acquired Fabric for an undisclosed amount. Fabric's co-founder was formerly Morgan Stanley's first Chief Risk Officer.
Real Capital Analytics Deal Looks Like A Bust With Evidence of Problematic Accounting	MSCI's acquisition of Real Capital Analytics ("RCA") in 2021 for $949 million was richly valued at ~13x and 48x run-rate revenue and EBITDA. We believe the acquisition was littered with challenges and shows MSCI's propensity for aggressive revenue and cost accounting to inflate its financial performance. We find that MSCI marked down total RCA clients from 2,000 to 1,600 but claimed that it had a high retention rate and that revenue should be considered recurring. A former executive close to the situation told us, "*It was pretty disorganized. It was like a dumpster fire. There were a lot of mismanaged accounts. I don't think they did enough due diligence, like on their run rate, and what they are producing*." Spruce Point finds even more blatant evidence of aggressive accounting tied to expense recognition. Despite large client losses, MSCI claims RCA customer relationships are 20 years, allowing it to recognize just $8.8 million of costs annually. However, if it assumed a 7-year customer life (closer to industry leader CoStar Group), expenses would be $25.1 million annually. MSCI's 2021 Critical Audit Matter expressed concern about both the intangible asset accounting for customer relationships ($176 million) and proprietary data ($186 million).

MSCI Is Shifting Investor Focus To "Adjusted" EPS As Cash Flow Struggles

The Burgiss Deal Is Expensive, And Puts MSCI In Greater Competition With Its Largest Customer	Spruce Point observes that MSCI's Private Assets segment has reported dismal results and has not achieved its high to-mid teens revenue growth targets set after the RCA deal. Organic growth recently went negative while the segment retention rate is negative on both a QoQ and YoY basis. This may have been another motivator for MSCI to acquire Burgiss recently at what we believe is a wildly inflated valuation of 10x and 68x sales and EBITDA. We estimate that Burgiss was at best breakeven and at worst losing money. The transaction is dilutive to MSCI's EPS and, using the Wayback Machine, we find that Burgiss may have experienced flat to declining client growth over the past four years. There is also evidence of weak accounting and/or financial controls as suggested by MSCI electing to report Burgiss' results on a 3-month lag. Lastly, we believe MSCI may have violated GAAP by capitalizing acquisition costs from its investment when they are supposed to be expensed. Even worse, Burgiss competes with eFront, which raises the risk of greater friction with its largest customer.
We Believe MSCI's Shift To Adj. EPS From Focusing On Margins Is A Classic Red Flag **Cash Flow Growth Stalls And Revolver Borrowing Increasing** **Dividend Growth Rate Plunges To Lowest Rate Ever**	MSCI ceased providing margin guidance and dismisses margins as not meaningful while putting greater emphasis on Adj. EPS. In 2022, MSCI introduced Performance Stock Options (PSOs) with a three-year performance period that vest based on the combined level of achievement of a cumulative Adj. EPS metric and a cumulative revenue metric. MSCI fails to disclose the specific three-year results necessary to achieve its targets and does not provide annual guidance on either metric. The PSOs replaced a grant of 5-Year PSUs. Spruce Point also takes issue with the shortened period to 3 from 5 years. Why does MSCI claim to be a high recurring revenue business yet doesn't provide revenue guidance? Moreover, it does not specify if the revenue targets must be organic or are adjusted for contributions from recent acquisitions such as Burgiss. Spruce Point takes even greater issue with MSCI's Adj. EPS. For example, MSCI wants investors to ignore \$100 million of debt extinguishment costs associated with modifying its capital structure. However, MSCI has spent \$2.3 billion in the past three years modifying its capital structure by repurchasing shares at a rich multiple to boost its Adj. EPS. We believe management could be using repurchases to hit bonus targets to reap rich payouts. In addition, MSCI wants investors to ignore real cash costs associated with software development activities. By our estimate, Adj. EPS was -28% and -13% below MSCI's reported results in 2021 and 2022. As of its last financial update, MSCI has not been able to increase cash flow guidance while operating costs rise and it tapped the revolver for additional liquidity to complete the Burgiss acquisition (despite enough cash on hand and cash flow). Moreover, MSCI's dividend growth has averaged 27.9% from inception in 2014 through 2023 but its recent increase was 10.4%, the lowest growth rate ever. We believe management may be signaling cash flow growth challenges ahead with these actions.

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MSCI Appears To Have Aggressive Accounting And Reporting

MSCI Appears To Be Engaging In Aggressive Accounting To Stretch Its Financial Performance

We already illustrated that MSCI's revenue and cost accounting for the Real Capital Analytics ("RCA") acquisition are problematic, but we believe this is just one symptom of a larger problem. Investors should be alarmed that MSCI has made frequent changes to its client description, most recently using a circular and vague reference that a client, *"Represents the aggregate of all **related clients** under their respective parent entity."* MSCI has also modified its description of non-recurring revenue and uses cost allocations for segment reporting which can be used to bolster margins in struggling businesses, while increasing capitalized costs.

To illustrate, MSCI may be manipulating revenue recognition within its Index segment. MSCI recently changed its language in the 10-K describing non-recurring revenue. Months later, in Q2'23 the Company reported a 160% increase in non-recurring revenue and explained it as one-time license fees **related to prior periods**. Index segment Adj. EBITDA margin, which had been under pressure, increased 170bps quarter-over-quarter. Why is MSCI recognizing revenue now for something that was related to a prior period?

On the cost side, MSCI's segment reporting gives management the potential for wide latitude to manipulate margins to its benefit. We observe that it can allocate costs by segment using different methods, without incurring *"arm's length"* charges. We believe this is relevant for its Index, ESG and Climate segments. For example, MSCI sells ESG and climate indices. Under its current disclosure guidance, the ESG-related related costs associated with these index products can potentially be kept artificially low to bolster the Index segment margins. We also observe that despite clear problems with ESG such as both total revenue and Run Rate revenue showing annual and sequential quarterly growth declines and Retention Rate declining for multiple quarters, ESG Adj. EBITDA is expanding. We struggle to understand how a business that is facing clear and obvious pressures is expanding margins. Acquisitions can also be used as a lever to reallocate costs, notably for the Real Capital Analytics and Burgiss transactions. MSCI failed to disclose the precise impact from the RCA deal but admitted that costs would be allocated to the Real Asset segment and away from others. Management should provide enhanced disclosure.

Lastly, MSCI appears to be making greater use of capitalized development costs that are added to the balance sheet, amortized to the income statement and conveniently ignored as non-cash add-backs. MSCI discloses that it capitalizes *"Internal Use"* software. Ironically in 2021 it wrote-off capitalized development costs that were related to external matters, notably sales of products in the Analytics segment. While management may be harmonizing Section 174 tax / book policies, it should still explain its accounting policy for capitalized development costs in greater detail and provide enhanced disclosure of capitalized costs by segment.

MSCI's Chief Accounting Officer Just Resigned

Glaring Issues In The CFO, CAO, Audit Partner, And Director Roles	Spruce Point takes issue with the appointment and swift departure of CFO Linda Huber, a respected executive who left MSCI after approximately 15 months on the job without providing a specific reason. Shortly thereafter in August 2021, she assumed the CFO role at FactSet, which is a major competitor to MSCI. In the context of our findings about recent unusual revenue reporting and margins in 2023, we are alarmed to see that MSCI's Chief Accounting Officer (CAO) resigned on August 18, 2023. Her predecessor was rotated to the Head of Business Finance where he led the finance function for all product lines and was responsible for P&L management. He resigned within one year after assuming this role. As of this report, MSCI has not named a successor to the CAO role and it does not have a Global Controller. We question the fitness of MSCI's Director Catherine Kinney who has served on the Board since 2009. She has been involved with SolarWinds (NYSE: SWI) since its IPO. She served as the Chair of the Nominating and Governance Committee which was responsible for firm-wide risk management and was also a member of the Audit Committee. Spruce Point finds it alarming that the SEC recently charged SolarWinds with Fraud for internal control failures during her directorship. MSCI claims its Audit Committee "Financial Expert" is Robert Ashe, who primarily served operational and business management roles with a brief stint as a public company CFO over twenty years ago. In fact, while he was CEO of Cognos, the Company delayed its 10-K/Q as the SEC reviewed its revenue recognition policies. He has a CPA in Canada, but MSCI reports in U.S. GAAP. If the weakness with MSCI's oversight aren't evident enough, we find that MSCI's PwC Audit Engagement Partner is not a financial services specialist. Her other audit clients are primarily chemical and shipping companies, and her LinkedIn biography references the title "Industrial Products Assurance Partner".
Modification of Goodwill Testing Procedures Is A Classic Red Flag	Spruce Point repeatedly finds that companies that modify goodwill testing procedures do so ahead of revealing broader troubles and issues with the business. Notably, we observe that in the last 10-K filed in early 2023, MSCI changed its goodwill testing discussion to first insert a qualitative test before a quantitative approach permitted under GAAP. Furthermore, it removed reference that the fair value of reporting units *"substantially exceed"* their respective carrying values. MSCI carries $2.2 billion of goodwill comprising nearly 46% of its total assets and we believe an impairment would be an embarrassing misstep.

Spruce Point Sees 55% - 65% Downside Risk In MSCI's Share Price

MSCI's Fundamental Owners Are Selling

Spruce Point believes the fundamental case against owning MSCI is mirrored by movements among its largest institutional owners. Fidelity and T.Rowe Price were formerly >5% owners but have repeatedly reduced their ownership in the Company. Furthermore, consistent with our view of weakening governance measures, we find that Director ownership has noticeably declined in the past few years.

Heavily Promoted By Morgan Stanley

Limited / No Upside To Consensus Price Targets

We see a poor risk / reward in owning MSCI's shares. The average sell-side broker consensus price target is $554/share, representing just 2.6% upside. We believe there is a certain comedic humor in MSCI's ratings and price targets. Notably, one of the highest Street price targets is from Morgan Stanley, who recently upgraded the stock calling it a *"Top Pick"*. As previously mentioned, MSCI was founded as Morgan Stanley Capital International with Morgan Stanley incubating the business and leading its IPO as underwriter in 2007. As such, we believe Morgan Stanley is the most biased stock promoter. Ironically, Morningstar, which is a key competitor to MSCI, has a Sell recommendation and Street-low $440/share price target. While also biased, we believe their rationale to sell the stock far outweighs the merits from the upside case promoted by Morgan Stanley.

Easy To Dismiss The Bull Case

Extreme Valuation Premium Makes MSCI An Underweight With 55%-65% Downside Risk

Spruce Point believes the current sell-side promoters need to refresh their thinking about MSCI and the sustainability of its growth and margins, especially "faster growth" segment areas in ESG and Climate and Private Assets. We believe it is easy to dismiss much of the bull case narrative with some simple channel checks, a close forensic review of MSCI's financials and by speaking with former employees. Specifically, we believe analysts and investors need to rethink the sustainability of MSCI's high client Retention Rate in a changing competitive landscape as well as its capital allocation policies. We believe management is showing poor discipline with acquisitions, while deploying too much capital to share repurchases with its stock trading at an industry-high multiple of 17x and 29x 2024E revenue and Adj. EBITDA. Investors would be better served with a higher dividend rather than allowing management to essentially buy its way towards handsome long-term bonuses tied to Adj. EPS. MSCI's leverage is now at a decade high at approximately 3x Net Debt / EBITDA which we believe is at the worst time as client Retention Rates decline. By conducting a realistic sum-of-parts valuation of MSCI's business segments, we estimate 55% - 65% downside risk ($190 - $244 per share) and expect MSCI to underperform the S&P 500 and its own relevant benchmark indices.

Summary: Spruce Point Believes MSCI Has Too Many Red Flags To Ignore

	X	Growing Fundamental Pressures And Client Defections In The Face of More Competition And Punitive Price Increases
	X	Doing Nepotism-Like Deals With Former MSCI / Morgan Stanley Alums In The Sphere of Chairman & CEO Fernandez
	X	Segment Margins Accounting Is Liberal And Can Be Manipulated Through Opaque Cost Allocations
	X	Shift of Focus To "Adjusted" EPS While Cash Flow And Dividend Growth Rate Moderates And The Revolver Gets Used
	X	Changing Goodwill Impairment Disclosure In The Face Of New Evidence That The ~$1bn Real Capital Analytics Acquisition Is A Bust
	X	Doing Dilutive Deals Such As Burgiss
	X	A Respected CFO That Mysteriously Resigned In 15 Months And A Chief Accounting Officer That Recently Resigned
	X	Diverting Capital To Repurchase Stock At Inflated Values To Allow Insiders To Meet Opaque Adjusted EPS Incentive Targets
	X	Controversial Director Associated With SolarWinds Where The SEC Just Levied Fraud Charges
	X	Audit Engagement Partner Is An Industrial Products Specialist With No Other Public Financial Services Clients
	X	Audit Committee "Financial Expert" A Canadian CPA With A Brief CFO Stint At An SEC-Investigated Company

Pressures Across Each of MSCI's Business Segments Are Increasing, Including Index And Analytics

Spruce Point Capital Management

MSCI Clients Declined For The First Time In Years

After a strong period of client growth, we observe that MSCI reported a decline in clients in Q3 2023 and they have not expanded their reach across more countries globally.

Clients Disclosed By MSCI

	2018	2019	2020	2021[1]	2022	Q1'23	Q4'23	Q3'23
Clients	4,000	4,200	4,400	6,300	6,600	6,600	6,600	**6,500**
Countries	90	85	95	95	95	95	95	95

1) Included Real Capital Analytics clients of 1,600
Source: MSCI SEC filings

Index Segment Client Retention Rate Is Down Four Quarters In A Row

MSCI says that Retention Rate is an important metric because subscription cancellations decrease their Run Rate and ultimately its future operating revenue over time. We observe that MSCI has experienced negative year-over-year declines in the Index segment's Retention Rate in the past four quarters.

MSCI Index Segment Retention Rate

	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23
Retention Rate	96.1%	96.6%	95.9%	96.9%	95.0%	96.1%	96.4%	95.8%	96.2%
YoY Change	*1.0%*	*0.0%*	*0.3%*	*0.9%*	*-1.0%*	--	*-0.2%*	*-0.1%*	*-0.7%*

Four Consecutive Quarters In Decline

Source: MSCI and Spruce Point analysis

Is MSCI Price Gouging Clients?

Absent price increases, we calculate that year-over-year new recurring sales would have plummeted in the -40% range in 2023. The CFO said MSCI was successful rolling out higher prices. However, is this true if clients are pushing back while MSCI's total customer count declined for the first time?

CFO Q3'23 Earnings Call

*"**We've been successful at rolling out higher price increases**, although, it's modest increases relative to what we've done in the past. I would say in the third quarter, price increases contributed a comparable amount to what they've contributed in recent quarters. **So across all product areas, price increases represented mid- to high 30% of new recurring sales within the index, it was 40% plus which is consistent with what we've seen in recent quarters**. **Clearly, there are varying degrees of pushback depending on the product and region and client type, and we are very cognizant of the fact that many of our clients are feeling pressure in the current environment**."*

New Recurring Subscription Sales					
$ in mm	**Segment**	**2022**	**Q1'23**	**Q2'23**	**Q3'23**
New Recurring	Index	$109.7	$25.1	$31.1	$24.0
	Analytics	$75.6	$13.7	$18.3	$18.8
	ESG & Climate	$79.0	$12.5	$13.9	$12.1
	All other-Private	$23.2	$5.1	$4.8	$4.8
	Total	**$287.5**	**$56.4**	**$68.1**	**$59.7**
	% QoQ growth	**--**	***-37.7%***	***20.7%***	***-12.3%***
	% YoY growth	***12.5%***	***-7.8%***	***-8.8%***	***-2.5%***
New Recurring (ex: price increase)	Index	$109.7	$15.1	$18.7	$14.4
	Analytics	$75.6	$8.9	$11.9	$12.2
	ESG & Climate	$79.0	$8.1	$9.0	$7.9
	All other-Private	$23.2	$3.3	$3.1	$3.1
	Total	**$287.5**	**$35.4**	**$42.7**	**$37.6**
	% QoQ growth	**--**	***-60.9%***	***20.6%***	***-12.0%***
	% YoY growth	***12.5%***	***-42.1%***	***-42.8%***	***-38.6%***

Large YoY decline absent price increases

Source: MSCI financial reports, Q3'23 Conference Call and Spruce Point analysis based on 40% of new index subscriptions from price increases and 35% for each other segment.

Expanding Risk Factors For Client Cancellations

Spruce Point observes that MSCI has expanded its discussion around reasons why client activity may decrease and cancellations occur. We view this as an extremely bearish signal.

Client Cancellation Discussion: 2021 vs. 2022

Cancellations or reductions by any of our largest clients could have a material adverse effect on our business, financial condition or results of operations.

A material portion of our revenues is concentrated in some of our largest ~~customers.~~clients. For the fiscal year ended December 31, ~~2021,~~2022, our largest client organization by revenue, BlackRock, accounted for ~~12.7%~~10.3% of our ~~total~~consolidated operating revenues. For the fiscal year ended December 31, ~~2020,~~2021, BlackRock accounted for ~~11.0%~~12.7% of our ~~total~~consolidated operating revenues. Our revenue growth depends on our ability to obtain new clients, quickly onboard our clients and deploy our products and services to them, sell additional services to existing clients and achieve and sustain a high level of renewal rates with respect to our existing licenses. Failure to achieve one or more of these objectives could have a material adverse effect on our business, financial condition ~~and results of operations.~~ or results of operations. A client's activity with us may decrease for a variety of reasons, including the client's level of satisfaction with our products and services, the effectiveness of our support services, the pricing of our products and services, the pricing and quality of competing products or services or the effects of changes in economic conditions and the global capital markets. If one or more of our largest clients cancels or reduces its licenses and we are unsuccessful in replacing those licenses, our business, financial condition or results of operations could be materially adversely affected.

<u>Warning:</u> We don't believe it is a good sign when a Company expands the discussion about factors why client activity may decrease

Source: 2022 vs. 2021 10-K

Spruce Point Research Interview

Spruce Point recently interviewed a former MSCI employee and asked whether or not they believe MSCI operates ethically. We received an opinion that specifically referenced the price increases imposed on customers.

Spruce Point Interview	
Question	*Do you think MSCI acts ethically?*
Answer	*"**I wouldn't call it ethical, I would call it, it's a culture that understands the legal constraints very well**. So it's ultimately all the work is done within some kind of legal ramifications, constraints, frameworks that are acceptable. But the ethical part is it's more personal. So what you consider ethical may not be ethical to somebody else. **So my personal view is too aggressive, it's just my personal view. MSCI is too aggressive for my liking in terms of the treatment of customers**, I mean the ESG business is about sustainability. What is sustainability? Sustainability is growth in mid long-term. So it's greed, but it's a long-term greed. How do you attain this long-term greed by treating the stakeholders well, and the stakeholders are not just the investors, they are also employees, they are suppliers, customers, et cetera. There may be various types of stakeholders. **So in my view, the only stakeholders that they care about is the investors. To my earlier comment about the index business and for example, raising fees**. And if you think about it, when you put together funds, you write the prospectus you shop for, you probably discuss it with your investors, initial investors in the funds, you know what benchmark they are comfortable with. And based on that they define it, this is the best benchmark, this is the one that we would like to follow, we would like you to follow. And they may have some flexibility at the very beginning and may say like, okay, do it. I don't know, MSCI, whatever. And then obviously you as a fund manager, you go through these index providers and you shop around and you talk to them and obviously they try to persuade you to go with them. **And let's say you decide on MSCI index and then three years down the line or five years down the line, they come back to you and they just jerk up the fee by 50% and you are just, you are stuck, but can you change your benchmark at this time? Obviously not because you have a track record. Again, why change this benchmark? It's costly. It may cause you some reputation damage of changing the benchmark**."*

Source: Spruce Point Research Interview

Is MSCI ONE An Implicit Admission of The Company's Shortcomings?

Spruce Point believes MSCI is leaving trace hints of problems through the development of its buzz-word laden "Investment Solutions as a Service" which was first announced in February 2021 and has evolved into MSCI ONE launched in December 2022.(1) MSCI references that it hopes the new platform will provide more flexibility and ease of use for clients. Spruce Point believes that if product flexibility and ease of use were not an issue, MSCI ONE would not have to be developed in the first place.

Comments Made On MSCI ONE	
COO Q4 2022 Jan 2023	*"Following the recent launch of MSCI ONE, I wanted to make a few clarifying observations as to what we're trying to accomplish.* ***It is not a new product or a stand-alone new platform to replace other products. It is instead a vehicle for integrating MSCI's world-leading content and analytics using software powered by Azure****. We are now providing clients with a common entry point to access some of our key products and applications that they rely on day-to-day, including climate lab, RiskManager, ESG manager and others, which we believe will also enable self-servicing, self-discovery and upsell opportunities.* *So the way to -- the best think -- way to think about MSCI ONE is a combination of those traditional outputs of our -- if you like, our calculation factory and sort of industry standard software that allows those to be presented in a more user-friendly way and brought together in a similar type of platform, which in turn improves both the user experience and users' ability to manipulate that data to do -- to have greater flexibility in how they present it, et cetera.* *But we're certainly very positive about it.* ***And we think that, over time, this will really be a way that our clients start to think of MSCI in a different way as regards the flexibility and the ease of use of - in their day-to-day working with our content****."*
COO Barclays Conf May 2023	*"We hope to provide evidence in the next 12 to 18 months that our new platform, MSCI ONE, is really helping to improve the analytics user experience.* ***And that should move us away from some of the legacy platforms, which have been, to a degree, a drag on our growth****."*
CTO RBC Conf Nov 2023	*"****So MSCI ONE realizes the dream of One MSCI that we've been talking about for maybe about a decade across asset classes, across product lines****. This is more of a client-centric product platform, which actually integrates all of our experiences in one place. It helps clients get a better access to our content. It helps client coverage in selling and upselling, cross-selling. It helps with servicing to service the clients and provide product support at a better pace. It also helps with the marketing. So there are many elements of MSCI ONE, which I'm pretty proud about and most importantly, it's providing much better and modern client experience end-to-end for all product lines."*

1) MSCI Launches IaaS and MSCI One

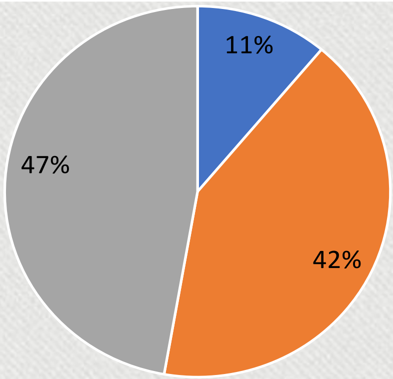
MSCI's Clients We Polled Indicate Increased Marketing From Competitors In The LTM

Spruce Point conducted a survey with the assistance of a marketing research firm to poll 60 current MSCI clients if they've seen more, less, or no change from competitors reaching out to market services in the past 12 months. The clients have been with MSCI on average ~7 years and were all Americas-based. Our results indicate that a substantial percentage of clients reported more competitive outreach than less across each of MSCI's product and service offerings.

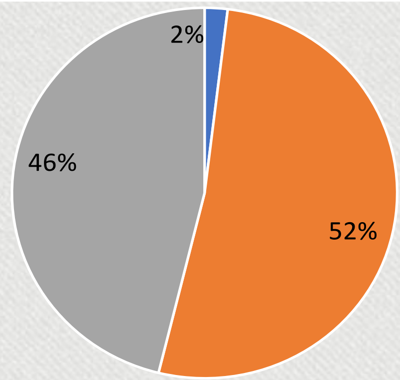
Competitor Outreach Last 12M

- Less
- More
- No change

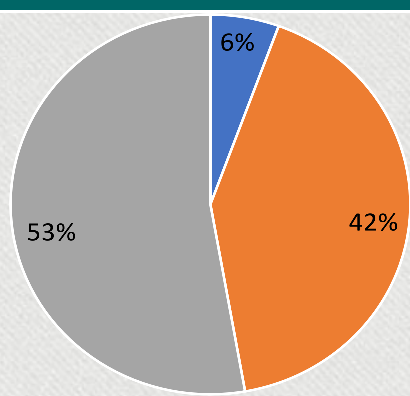
Index



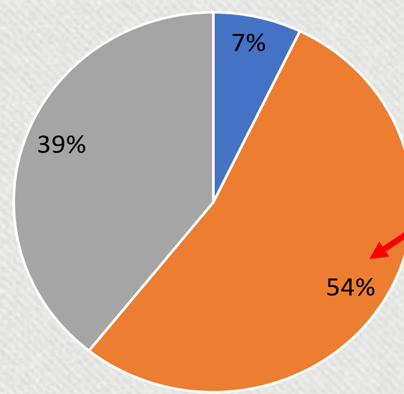
Analytics



ESG & Climate



Private Assets

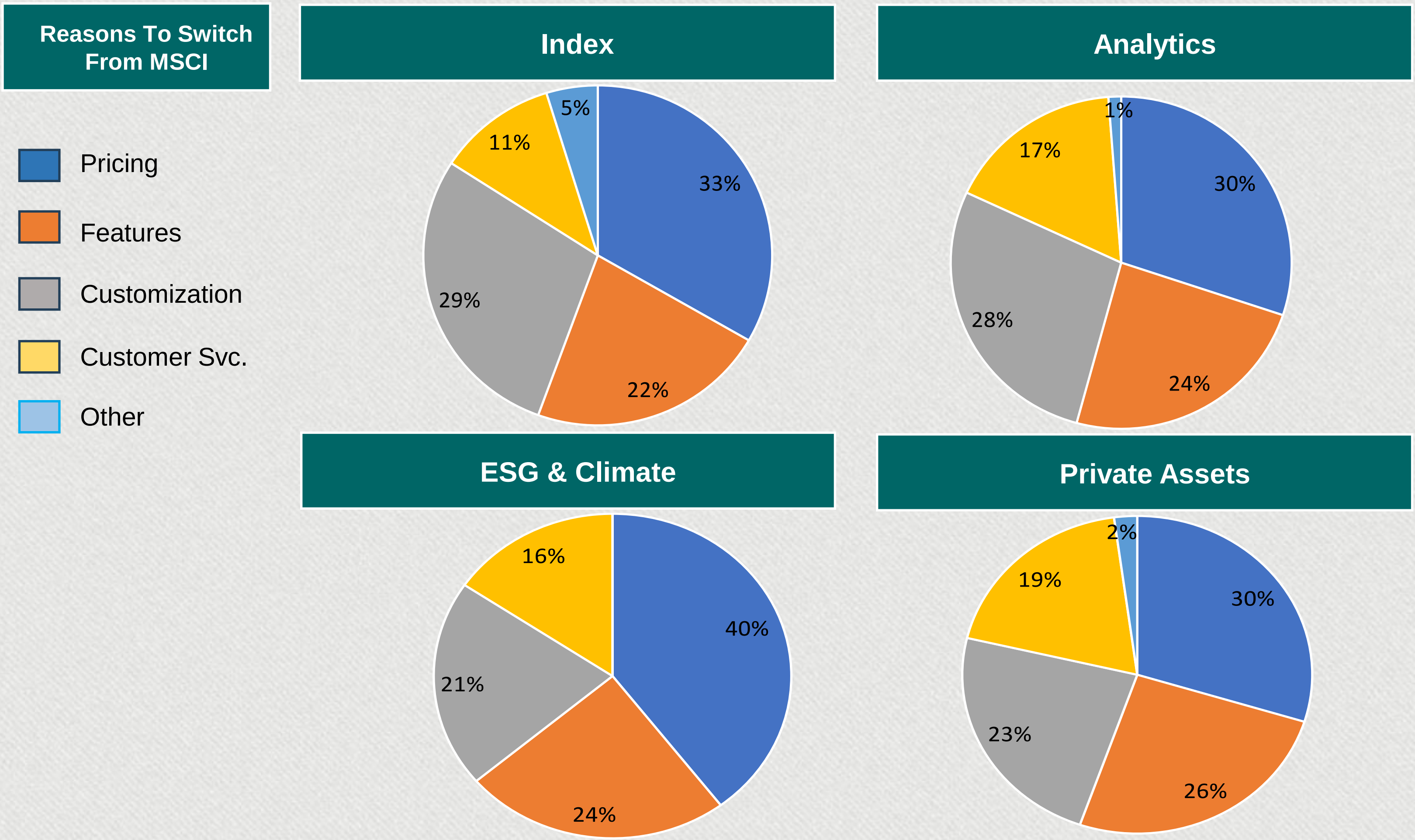


<u>Note:</u> This highest % In Real Assets Where MSCI Just Made The Expensive Burgiss Acquisition

Source: Spruce Point Research Poll

Better Pricing Was The Top Reason Clients Reported They'd Leave MSCI

Spruce Point polled the same MSCI clients to ask what would be the reasons they decided to leave MSCI for a different service provider across all offerings. We consistently found that price was the most common reason, followed by more features, and customization. Given increased pressures, price is a natural lever competitors can use to entice MSCI clients.



Source: Spruce Point Research Poll

Constructive Feedback For MSCI

Our poll also offered an open-ended forum for clients to provide feedback. While most of the assessments were favorable, the common theme among the constructive feedback was that MSCI needs to innovate more and faces increased competition, especially in ESG & Climate which has been MSCI's fastest growing segment recently.

Client 1	*"Solid provider, but not innovative."*
Client 2	*"MSCI was an early mover on the climate space, they need to keep innovating to keep their position, the space has become much more crowded."*
Client 3	*"MSCI is a leading index provider who has improved its analytics offerings. It needs to improve its ESG and climate product to better compete in the marketplace."*
Client 4	*"I think that the value could be improved with additional customizability."*
Client 5	*"MSCI works well but there is not much difference from them and JP Morgan."*

Source: Spruce Point Research Poll

Recent Hints Being Dropped of Continued Weakness

Spruce Point observes a shift of tone from the beginning of the year, notably around longer sales cycles in the Index and ESG business.

Sales Cyle Comments On The ESG And Index Business	
On ESG **Q4 2022 Jan 31, 2023**	**Analyst:** *"So I wanted to talk a little bit more about ESG. Give us a sense of the new subscription sales that you signed on this quarter. How much of that is just a seasonal acceleration from 3Q to 4Q? Or are you seeing sort of sales cycles? Andy, as you alluded to, the last quarter that those had increased a little bit? Are you seeing further increase in those sales cycles? Or are things sort of normalizing from your perspective?"* **CFO:** *"Yes. And I think you could see this in the past, and this is the case across most product areas.* ***But as you alluded to, the fourth quarter does tend to be a strong quarter for us****. I would underscore that ESG and Climate had a very strong year overall. And when you drill into it, and we've alluded to this, Climate within there continues to grow at an incredible growth rate and is making a more meaningful contribution to the overall segment. And so that is something that is helping to fuel some momentum. "*
On ESG **Goldman Conference Dec 6, 2023**	**Analyst:** *"The 35% growth that you saw in EMEA in ESG does come above your long-term target growth in the mid- to high 20s for ESG. Does that suggest that ESG concerns in Europe are, at this point, resolved? Or would you say the growth would have been stronger if the external environment were more cooperative?"* **CFO:** *"So I would say it this way. Firstly, there are cyclical factors at play in EMEA or Europe, the same way we see in the U.S. So clients are feeling pressure.* ***We're seeing budget pressures that lead to longer sales cycles****."*
On Index **Q4 2022 Jan 31, 2023**	**Analyst:** *"But maybe just talk a little further, if you would, about the sales cycles there, your sales pipeline, client budgets? So I mean, is there anything there that you're feeling a little less positive about the stuff, particularly sales cycle."* **CFO:** *"And so at this point, we haven't seen a lot of impact from the environment, although we are conscious that* ***the index segment tends to have a shorter sales cycle****. And so there could be some impact.* ***But right now, it's overall a very, very healthy dialogue.*** *"*
On Index **Goldman Conference Dec 6, 2023**	**Analyst:** *"Makes sense. Let's dive into some of the recent revenue trends. Index subscription revenue grew 11% in the third quarter, which was very resilient, consistent with past quarters despite an uncertain macro environment. What are you seeing with client spending behavior, specifically in the Index business on the subscription side?"* **CFO:** *"Without a doubt, there are cyclical pressures at play right now, the same things we see across other parts of the business.* ***We are seeing longer sales cycles, particularly for larger deals****."*

We Believe MSCI Understates Growing Pressure From Qontigo Across Segments

MSCI may be understating the increased pressures in the index business, notably from Qontigo which has integrated and merged various offerings under Deutsche Börse and was launched in 2019 with backing from private equity powerhouse General Atlantic's $720 million investment. Qontigo now includes Axioma (acquired in 2019), Institutional Shareholder Services (ISS) (acquired in 2021) and launched ISS STOXX in November 2023. Qontigo is taking direct aim at MSCI by hiring ex-MSCI veterans.

Segment	MSCI's Competition Disclosure
Index	*"Among our Index competitors are S&P Dow Jones Indices LLC (a joint venture of S&P Global Inc. and CME Group Inc.); FTSE Russell, a subsidiary of the London Stock Exchange Group plc; and Solactive AG."*
Analytics	*"Our Analytics offerings compete with those from a range of competitors, **including Qontigo (formerly Axioma Inc.)**, BlackRock Solutions, Bloomberg Finance L.P. ("Bloomberg"), and FactSet Research Systems Inc."*
ESG & Climate	*"For example, our ESG and Climate offerings compete with those from a range of competitors, including Sustainalytics Holding B.V. (a part of Morningstar, Inc.), **Institutional Shareholder Services Inc. (majority owned by Deutsche Börse AG)**, Trucost (an S&P Global Inc. business), Refinitiv (a London Stock Exchange Group business), Bloomberg and Moody's Corporation."*

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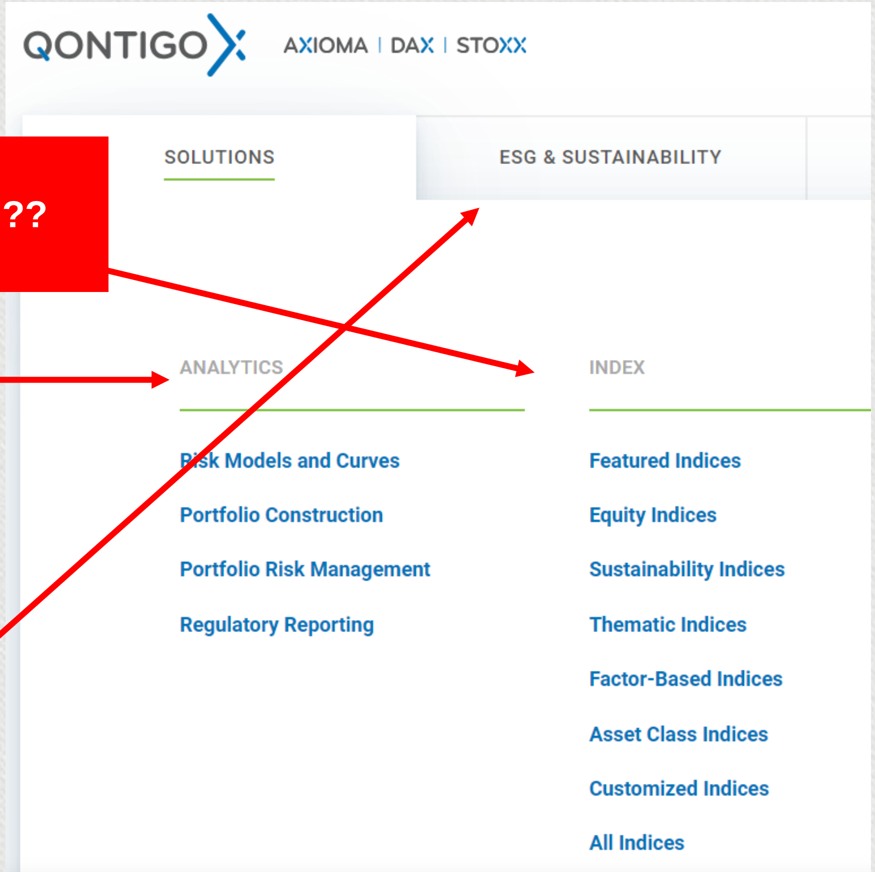

Sources: 2022 10-K and Qontigo website Qontigo launch press release, ISS acquisition, Creation of ISS STOXX, Combination of SimCorp and Axioma

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Qontigo Takes Direct Aim At MSCI

Qontigo makes no secret that it wants to challenge MSCI and is claiming market share gains by winning customers. We also see that Qontigo has been hiring key former MSCI executives, notably its former Global Head of Partnership and Product Marketing, along with former BlackRock and Vanguard executives (MSCI's large clients).

Deutsche Börse CFO, Gregor Pottmeyer: 2022 Investor Day

"And from a capability point of view, we have all the ingredients what we need to compete with MSCI. So that's our ambition level. Yes, it's a EUR 600 million company from a revenue perspective, MSCI is 3 to 4x bigger. But nevertheless, from a qualitative perspective, we have all the ingredients to compete here. ***And we are winning market shares. We are winning customers here****."*

Deutsche Börse CEO, Theodor Weimer: 2023 Investor Day

"With a combination of ISS and STOXX, ***we have created a more credible, we call it, MSCI challenger****."*

Qontigo Has Hired Key MSCI, BlackRock and Vanguard Executives

Executive	Role / Tenure	Current Role
Arun Singhal	**MSCI**: Global Head of Product Marketing for Analytics, Factors and Indexes / ~5 years	Qontigo, Global Head of Index Product Management
Mohan Verma	**MSCI**: MD, Global Head of Partnerships / 11 years	Qontigo, Global Head of Business Development
Charlene Low	**MSCI**: Executive Director / 9 years	Qontigo, MD, Head of Asia Pacific
Serkan Batir	**BlackRock**: Index and Portfolio Management / 13 years	Qontigo, Global Head Product Development and Benchmarks (DAX & STOXX)
Axel Lomholt	**Vanguard**: Fmr. Interim CEO of Vanguard Asia, Head of Product Mgmt, Asia	Qontigo, Chief Product Officer, Indices & Benchmarks STOXX/DAX

Sources: 2022, Investor Day, 2023, Investor Day, Executive Hiring; Qontigo/Singhal, Qontigo/Verma, Qontigo/Batir (LinkedIn), Qontigo/Lomholt, Charlene Low

MSCI Fails To Disclose Nasdaq Is An Index Competitor Adding To Software Solutions

MSCI should be concerned that exchanges such as the Nasdaq are becoming more embedded with technology and software solutions among its customer base across the financial ecosystem. For example, on November 1st, Nasdaq acquired Adenza in a $10.5 billion deal. Adenza is a provider of risk management, reporting and capital markets software. MSCI already fails to disclose that Nasdaq is a competitor within its Index segment while also growing its ESG solutions business. Nasdaq is well positioned to collect ESG data from its market listed clients. The combination of Nasdaq and Adenza is expected to unlock valuable cross-selling and growth opportunities.

MSCI's Index Competition Disclosure

"Among our Index competitors are S&P Dow Jones Indices LLC (a joint venture of S&P Global Inc. and CME Group Inc.); FTSE Russell, a subsidiary of the London Stock Exchange Group plc; and Solactive AG."

Nasdaq?

Nasdaq Index Competition Disclosure

*"Our Index business offers Nasdaq-branded indexes and financial products and faces competition from providers of various competing financial indexes. For example, there are a number of indexes that aim to track the technology sector and thereby compete with the Nasdaq-100 Index and the Nasdaq Composite Index. We face competition from investment banks, dedicated index providers, markets and other product developers, including S&P Dow Jones Indices, **MSCI** and FTSE Russell."*

The Nasdaq / Adenza Strategic Rationale

Transforming Nasdaq into a Leading Technology Provider to the Global Financial System

Unlocks High-Value Cross-Sell and Growth Opportunities

Proven Ability to Deepen Our Trusted Client Relationships

Strong Connectivity with Institutions across the Financial Ecosystem

	Nasdaq	Nasdaq	Nasdaq	Nasdaq	CALYPSO	AXIOMSL
	Marketplace Technology	**Surveillance**	**Fraud & Anti-Money Laundering**	**Index, Data & Analytics**	**Trade Lifecycle Management**	**Regulatory Solutions**
	Multi-asset market infrastructure solutions	Cross-market, multi-asset market surveillance solutions	Comprehensive, end-to-end capabilities across the full spectrum of financial crime categories	Suite of transparency, analytics, and workflow solutions across the investment lifecycle	Comprehensive solutions across the trade lifecycle, trade operations, and treasury management	End-to-end regulatory risk, financial reporting, and compliance solutions
Sell-Side	●	●	●	●	●	●
Buy-Side				●	●	●
Market Infrastructure	●	●			●	
Central Banks	●				●	

Sources: Nasdaq and MSCI 10-K, Adenza Deal Announcement and Investor Presentation and Supplemental, Nasdaq ESG Solutions

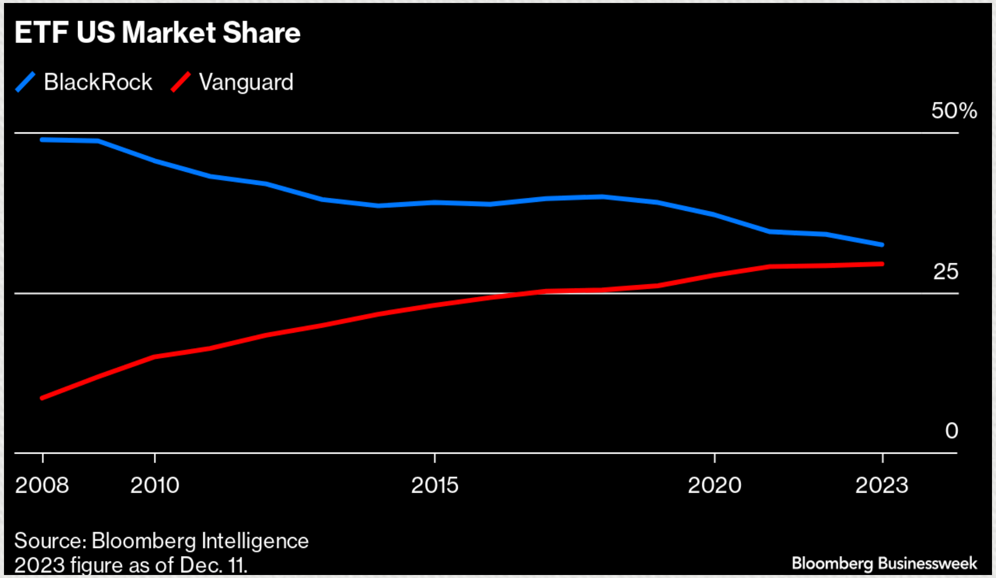
MSCI's Largest ETF Client Keeps Losing Market Share And Replaced Its Leader

MSCI's biggest customer is BlackRock at ~10% of revenue with ~95% coming from fees based on assets in BlackRock's ETFs based on MSCI indices. BlackRock has been steadily losing share in the ETF market, specifically in the U.S. where Vanguard has marketed ultra low-cost ETFs. In years past, Vanguard moved its target benchmarks away from MSCI. Market observers expect Vanguard to ultimately be the market share leader within a few years while other ETF providers outside of Vanguard and BlackRock grow at an unprecedented rate. BlackRock's global head of iShares and index investments Salim Ramji recently departed.

Quotes From Recent Article On BlackRock Market Share Loss

*"And while BlackRock and Vanguard still make up the bulk of all ETF assets, **an unprecedented 45% of the new money flowing into the industry this year has gone to issuers outside of the big two**, Bloomberg Intelligence data show."*

*"That setup has enabled Vanguard to charge clients next to nothing across its largely passive ETF lineup, sucking in hundreds of billions of dollars of inflows per year and **fueling an almost-continuous fee war as issuers big and small slash costs to compete**."*



Source: "*Vanguard Is Closer Than Ever to Ending BlackRock's ETF Reign*," Bloomberg, Dec 13, 2023
"Blackrock names Cohen, Lord to Top Posts, Ramji to Step Down", Yahoo!Finance, Jan 12, 2023

BlackRock and Vanguard Revenues(1)

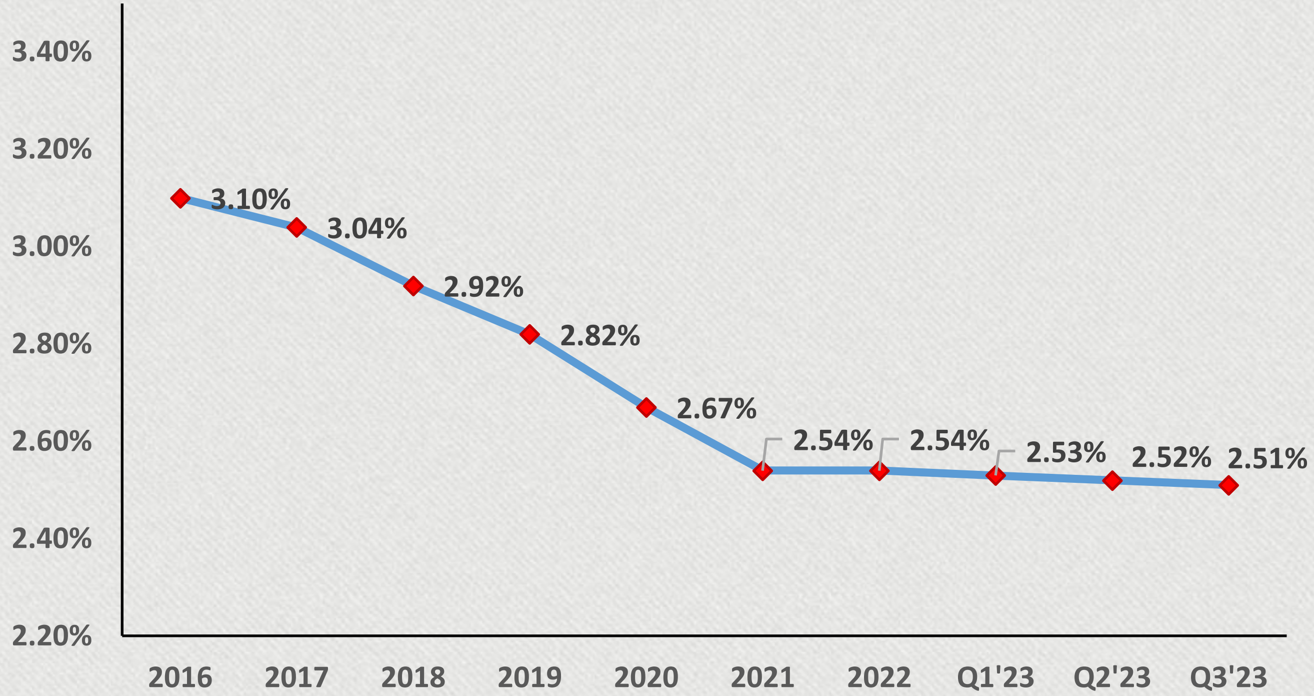
$ in mm	2020	2021	2022
BlackRock ETF *% growth*	$175.9 *3.9%*	$242.9 *38.1%*	$220.5 ***-9.5%***
Vanguard *% growth*	$16.1 5.9%	$17.7 9.9%	$18.9 6.8%

Source: MSCI 10-K and Proxy Statement
1) MSCI said in November 2022 these two clients represent 75% of ETF fees.

ETF Fees Under Pressure, Ultimately Pressuring Index Margins

MSCI reports AUM linked to MSCI equity indices along with the period-end fees in basis points. There is a fee war and BlackRock, which is losing market share notably in the U.S. is cutting fees. For example, recently in December 2022, BlackRock cut fees on eight ETFs, with the iShares MSCI Emerging Markets Multifactor ETF (EMGF) seeing the biggest expense-ratio cut from 0.45% to 0.25% basis points. BlackRock is ~17% of Index segment revenue. Spruce Point believes that when customers cut fees, suppliers and partners are typically expected to make concessions. We observe that MSCI's fees linked to equity ETFs have been in perpetual decline with further risk to the downside over time.

MSCI's Period-End Average Fee (bps) From AUM Linked To Equity ETFs



Source: MSCI Earnings Releases and Spruce Point analysis
1) "*BlackRock Cuts Fees on 8 iShares ETFs*," Yahoo Finance

Spruce Point Capital Management

AUM Linked To MSCI Indices Has Fallen

MSCI was an indirect COVID-19 beneficiary as low interest rates swelled assets. However, that benefit is now a headwind as asset growth tapers. Total AUM benchmarked to MSCI indices is down -9% from June 30, 2021 – 2023. MSCI does not frequently report these figures

AUM Benchmarked To MSCI Indices				
$ in trillions	**6/30/2021**	**6/30/2022**	**12/31/2022**	**6/30/2023**
Active % share	N/A	$9.0 66.7%	$9.5 69.3%	$10.3 69.1%
Passive % share	N/A	4.5 33.3%	4.2 30.7%	4.6 30.9%
Total AUM	**$16.3**	**$13.5**	**$13.7**	**$14.9**

Declined -9% In Two Years

Source: MSCI investor presentations and press releases

Spruce Point Capital Management

Self-Indexing Threat To MSCI Index Business

Spruce Point believes that self-indexing poses a large and growing threat to MSCI's Index business. MSCI started disclosing this risk in early 2019. In fact, BlackRock, MSCI's largest customer, openly talks about pursuing and enacting self-indexing products given the advantages of cost and flexibility.

Larry Fink, CEO, July 2017

*"**We also launched BlackRock's first self-indexed ETFs**, 2 smart beta fixed income ETFs. These new indexes are based on unique intellectual property and leveraging the best of BlackRock's analytics and modeling capabilities to achieve superior investment outcomes for clients. **This illustrates one of the ways we are using our scale and technology to reduce manufacturing costs and pass along greater savings to our clients**."*

April 2018 Proxy Statement

*"**We seeded or co-invested $1.1 billion** into products as we built new and innovative investment capabilities, including alternative, ESG-related, **and self-indexed offerings**. We launched our first-ever self-indexed, smart beta fixed income funds in 2017, which deliver a strategy to clients that wasn't currently available in the form of an index before."*

Robert Kapito, President & Director, January 2021

*"Now on the **self-indexing part of your question, look, self-indexing certainly has some advantages, and the advantages are cost and flexibility**. So we're exploring constantly self-indexing in areas where there aren't well-defined indices, and that would be in smart beta, in fixed income, factors, in ESG. And currently, **we have 6 self-indexed ETFs**."*

Salim Ramji, Senior Managing Director & Global Head of iShares & Index Investments, Investor Day, June 2021

*"We are also continuing to invest in scale efficiencies. We get this obviously through Aladdin, **but we're also diversifying our ETF servicers, diversifying index providers, and expanding our own capabilities around self-indexing**, custom indexing, and proprietary data and analytics, especially in fast-growing areas like ESG."*

Sources: BLK Q2 2017 Earning Call, BLK 2018 DEF14A, BLK Q4 2020 Earning Call, BLK 2021 Investor Day, MSCI 2018 10-K (filed Feb 2019)

Do You Want To Bet On A Mega Cap With Innovation Challenges Having To Transform Its Core Business?

Spruce Point believes that much of MSCI's core index business has been commoditized and that its "New Growth" areas require a transformation which we believe will ultimately prove too difficult and costly for MSCI to surmount. Chairman and CEO Fernandez recently referenced that MSCI must turn into a "*giant global equity research shop*". Unfortunately, attracting top equity and data analyst talent is an expensive proposition as MSCI will have to compete with hedge funds and asset managers.

MSCI's Highlighted Innovation And Investment Key Growth Areas

Innovation and Investment

New Growth

Drive new business capabilities through new products and services

Examples:
- Climate
- Thematic Indexes
- Fixed income Indexes
- Private Assets

Sources: MSCI Investor Presentation and Q2'23 Conference Call

Enlightening Comment About MSCI's Index Business

Question	*"And maybe also when you think about sustainability of growth within indices itself, do you see any changes in the environment going forward? Or just still structurally similar to what we've seen over the last number of quarters and years"*
CEO Answer	*So we saw this trend on market exposures with market cap indices, which continues unabated. We then moved on to factor indices, which have become very, very popular and continue to grow. We then moved on to ESG indices. We're now very much into the climate index phase. We're also accelerating our thematic indices. So if you think about it, we're -- in addition to market cap indices, which are simple exposures to market, we are moving into what we call nonmarket cap indices, which are indices built on demand on an investment thesis and demand for -- by clients. So again, these are ways of organizing the securities of the world according to certain variables, whether it's an ESG variable, a climate, a thematic, a factor or whatever variable, and they become extremely valuable for people who are building portfolios across those variables, whether they want to then launch an active management product, whether they want to launch a passive one, whether they want to launch structured products or listed derivatives, it's all the same concept, which is a basket, a large basket of securities organized in different ways.* ***To achieve that, you need to have a lot of underlying information about those securities. You have to know everything about their ESG profile, their climate profile, their thematic profile, their factor profile. So MSCI is turning into a giant equity research shop to try to understand the characteristics of securities so we can organize them that way.***"

MSCI's Thematic Indexes Are Poorly Penetrated Within BlackRock's Offerings

Spruce Point Capital Management

A review of BlackRock's thematic ETFs shows that just three of eighteen use MSCI indices as a benchmark. We believe this is an underwhelming penetration of MSCI-linked offerings from its largest client.

BlackRock Thematic ETFs	Bloomberg Index Ticker	Index Ticker Owner
AI and Digitization;		
iShares Cybersecurity and Tech ETF	NYFSSECN	FactSet
iShares Blockchain and Tech ETF	NYFSBLCN	FactSet
iShares Robotics and Artificial Intelligence Multisector ETF	NYFSRAIN	FactSet
iShares Future Metaverse Tech and Communications ETF	MSGMVSNU	Morningstar
iShares Future Cloud 5G and Tech ETF	MSGDICNU	Morningstar
Demographic Divergence;		
iShares Genomics Immunology and Healthcare ETF	NYFSGIBN	FactSet
iShares Virtual Work and Life Multisector ETF	NYFSVWLN	FactSet
iShares Neuroscience and Healthcare ETF	NYFSNBMN	FactSet
iShares Emergent Food and AgTech Multisector ETF	MSGFOINU	Morningstar
Transition to a Low-Carbon Economy;		
iShares Global Clean Energy ETF	SPGTCLNT	S&P Global
iShares Self-Driving EV and Tech ETF	NYFSAEVN	FactSet
iShares MSCI Water Management Multisector ETF	NU747943	MSCI
Geopolitics and Economic Competition;		
iShares Global Infrastructure ETF	SPGTINNT	S&P Global
iShares Environmental Infrastructure and Industrials ETF	GDXKGRN1	FTSE
iShares U.S. Infrastructure ETF	NYFSINFT	FactSet
iShares Emerging Markets Infrastructure ETF	SPGEIFDN	S&P Global
Future of Finance;		
iShares MSCI China A ETF	M1CNA	MSCI
iShares MSCI China Multisector Tech ETF	NU738325	MSCI

Source: BlackRock Thematic ETFs

Spruce Point Capital Management

Profit Over Doing What's Right? A Look At MSCI's China ETF…..

We believe the creation and marketing of the iShares MSCI China A ETF is an example of MSCI's murky ethical behavior and pursuit of profits ahead of doing what's right. This introduces headline and reputational risk to MSCI's franchise. For example, the index allegedly facilitates investment in Chinese companies blacklisted by the U.S. government identified as advancing or facilitating human rights abuses. A Congressional letter recently called out MSCI's practices.

Prospectus Risks of Investing In Chinese Companies

Economic Risk. The Chinese economy may be adversely affected by, among other things, a deterioration in global demand for Chinese exports or a contraction in spending on domestic goods by Chinese consumers. In addition, China may experience substantial rates of inflation, significant indebtedness or economic recessions, which would have a negative effect on its economy and securities market. Delays in enterprise restructuring, slow development of well-functioning financial markets and widespread corruption have also hindered the performance of the Chinese economy. China continues to receive substantial pressure from trading partners to liberalize official currency exchange rates. Reduction in spending on Chinese products and services, supply chain diversification, institution of additional tariffs, sanctions or other trade barriers (including as a result of heightened trade tensions between China and the U.S. or in response to actual or alleged Chinese cyber activity) or a downturn in any of the economies of China's key trading partners may have an adverse impact on the Chinese economy and companies in which the Fund invests. Certain Chinese companies (which may change from time to time) are directly or indirectly subject to economic or trade restrictions imposed by the U.S. or other governments due to national security, human rights or other concerns of such government. For example, certain foreign technology companies are subject to U.S. export controls as those companies are believed to pose a risk to U.S. interests. The U.S. also bans imports of goods produced in certain regions of China or by certain Chinese companies due to concerns about forced labor. Such restrictions may have unanticipated and adverse effects on the Chinese economy and companies. Any action that targets Chinese financial markets or securities exchanges could interfere with orderly trading, delay settlement or cause market disruptions. The Underlying Index may include companies that are subject to economic or trade restrictions (but not investment restrictions) imposed by the U.S. or other governments. So long as these restrictions do not include restrictions on investments, the Fund is generally expected to invest in such companies, consistent with its objective to track the performance of the Underlying Index.

Headline And Reputational Risk

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House of Representatives
SELECT COMMITTEE ON THE CHINESE COMMUNIST PARTY
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SHONTEL BROWN, OHIO

July 31, 2023

Henry Fernandez
Chairman and Chief Executive Officer
MSCI Inc.
7 World Trade Center
250 Greenwich Street
New York, NY 10007

Dear Mr. Fernandez,

We write to request information about Morgan Stanley Capital International's (MSCI) facilitation of American capital flows to Chinese companies that have been blacklisted by the U.S. government because of their role in fueling the People's Republic of China's (PRC) military advancement or in facilitating the Chinese Communist Party's (CCP) human rights abuses. As described below, a brief review of just a few of MSCI's indexes revealed that MSCI facilitates American capital flows to dozens of blacklisted PRC companies. It is unconscionable for any U.S. company to profit from investments that fuel the military advancement of America's foremost foreign adversary and facilitate human rights abuses. We therefore seek additional information regarding this deeply troubling matter.

As you know, index providers develop representative portfolios of security holdings—called indexes—that track a combination of assets. Investors use indexes as the basis for portfolios or funds. By including a company in one of its indexes, index providers give it a stamp of approval and encourage substantial investment into that company.

Few companies do so at the scale of MSCI. With over $13 trillion benchmarked to its products, MSCI is one of the largest index providers in the world. Millions of Americans' savings and retirement accounts are invested in funds benchmarked to MSCI indexes.

Our review has shown that, as a direct result of decisions made by MSCI, these Americans are now unwittingly funding PRC companies that develop and build weapons for the People's Liberation Army (PLA)—the PRC's military—and advance the CCP's stated mission of technological supremacy. By facilitating massive flows of American capital to these and other PRC entities linked to the PLA or to human rights abuses, MSCI is exacerbating an already significant national security threat and undermining American values.

Source: Prospectus and Congressional Letter

Can MSCI Index Compete With IBM Watson In Artificial Intelligence?

MSCI said in 2019 that it invested and used artificial intelligence ("AI") to create indices and referenced thematic indices. However, we believe it may not be at the forefront of AI or thematic product development. We observe that HSBC has partnered with IBM Watson to launch AI Powered ETFs, which won an industry innovation award. We believe MSCI's index struggles can be seen with the reappointment of Jana Haines, a 14-year MSCI veteran to take the lead over the index business in November 2023. MSCI does not put this news on its IR website, but rather under the general media center.

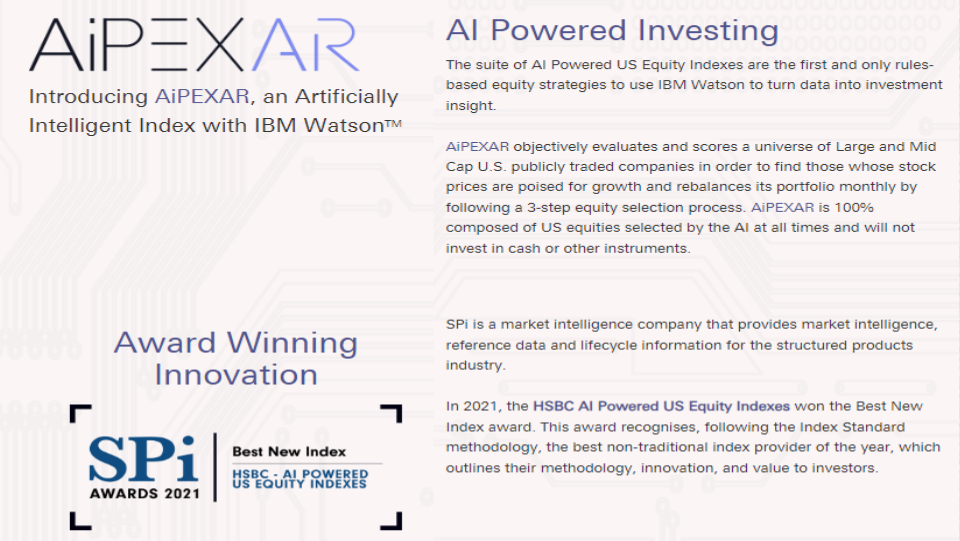
Former Global Head of Index and Executive Committee Member, Diana Tidd, Analyst Day 2019

"We want to invest in technology, AI, but for us, AI is not just used to create exciting new indexes like our thematic indexes, but we use artificial intelligence also as another layer of quality assurance on our already existing very strong quality assurance processes on our indexes."

MSCI Appoints New Head of Index: Nov 2023

"NEW YORK – November 30, 2023 – MSCI Inc. (NYSE: MSCI), a leading provider of mission-critical decision support tools and services for the global investment community, today announced that Jana Haines has joined the firm as Head of Index and as a member of MSCI's Executive Committee."

IBM Watson and HSBC Have An Award-Winning Partnership



Sources: IBM, HSBC and EquBot Collaboration, MSCI Appoints Jana Haines Press Release

Spruce Point Research Interview On Index Challenges

Spruce Point asked a former employee who worked on the ESG side of the business, their impression of what is happening on the index side. MSCI sells ESG indices, so the former employee provided some insights from their interaction with the people from MSCI's Index segment.

Spruce Point Interview	
Question	*Is your impression that that business is becoming any more challenging for them or mature? I mean did you get a sense from being there that the Company eventually sees some maturity or more difficulties on the index side of the business?*
Answer	*"**Absolutely**. So they've at some point invented the asset-based fees coming in business. I don't know they invented it or basically acquired this idea. And it helped tremendously growth in the index business because this is lumped into the index business and as the market grows, which typically the case, obviously it just gets integrated into the spy. On the index side, I worked very closely with, well was on the same floor both in New York and San Francisco with my index colleagues. **So I could hear and their challenges and obviously I am not an expert in that specific area, but they saturated the market pretty well and it was very, very hard to get really new customers. A lot of work that's been done on that side was on raising fees and as you can imagine, it's not a very pleasant conversation with all of the clients.**"*

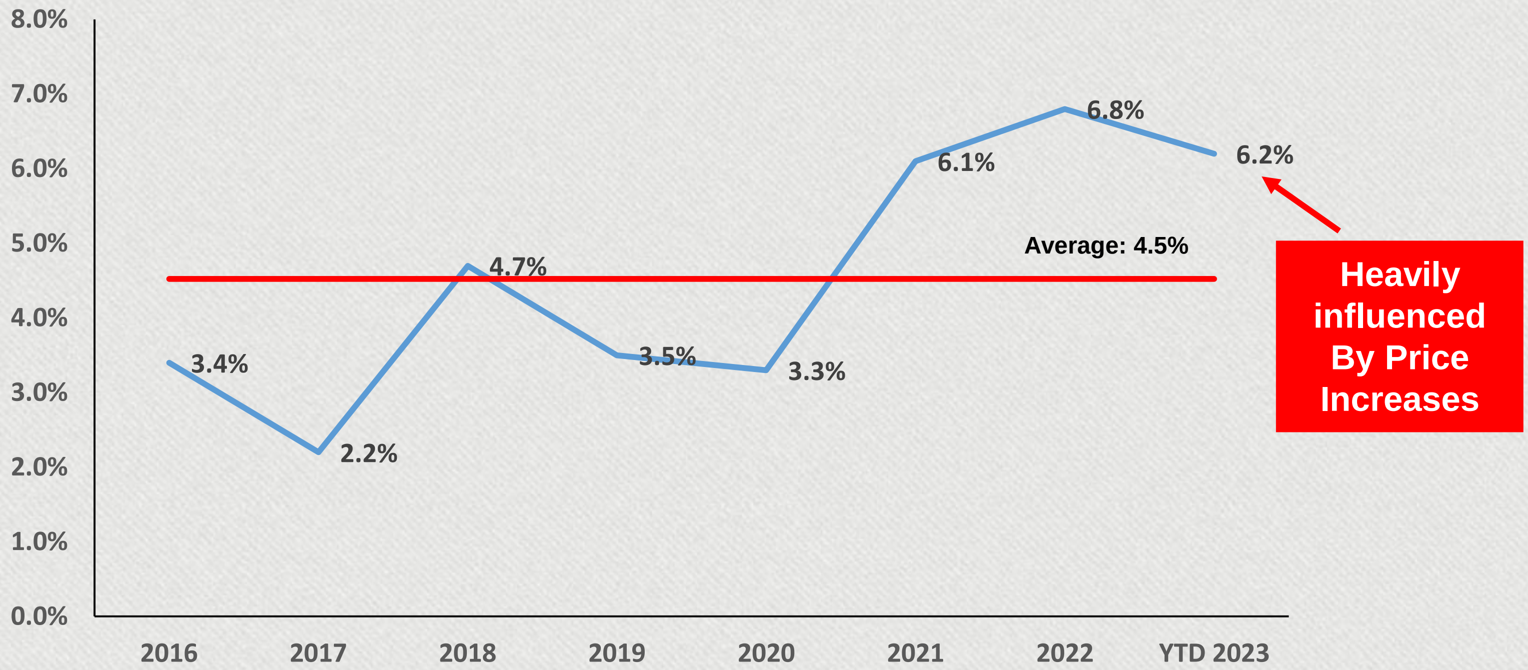
Source: Spruce Point Research Interview

Analytics Revenue Growth Goals Are Not Materializing According To Plan

It has been almost seven years since MSCI laid out aspirations for high single digit growth in the Analytics segment, and while it is making progress, MSCI is still stuck in the mid single digit growth range and this includes the effect of recent price increases.

CEO & Chairman Fernandez Investor/Analyst Call April 28, 2016	*"Analytics is our long-term target to move from being a lower revenue generator in the low to mid-single digits to a medium revenue grower in the upper single digits over the long term."*

Analytics Segment Reported Organic Growth



Source: MSCI financials

SPRUCE POINT
CAPITAL MANAGEMENT

Analytics Recent Results Are Under Increased Pressure

Analytics is ~26% of MSCI's revenue. Spruce Point observes that for the first time in recent years, MSCI experienced year-over-year declines in the organic sales growth, Adj. EBITDA margin and client Retention Rate metrics in the Analytics segment. Client Retention Rate has fallen in three of the last four quarters while Adj. EBITDA margin growth is declining after a period of strong expansion. Now, MSCI is referencing higher compensation costs across cost of revenue, selling and marketing and G&A, offset by lower R&D compensation expense after a period of cost capitalization. Our interpretation is that MSCI is likely experiencing wage pressures retaining employees who may be looking to depart while customers' churn.

Key Performance Metrics of MSCI Analytics Segment

	2021	Q1	Q2	Q3	Q4	2022	Q1	Q2	Q3
Organic Sales Growth	6.1%	4.8%	5.2%	7.5%	9.5%	6.8%	5.9%	6.0%	6.6%
YoY Change	*2.8%*	*-1.8%*	*-1.4%*	*1.1%*	*4.7%*	*0.7%*	*1.1%*	*0.8%*	*-0.9%*
Retention Rate	93.8%	94.4%	94.3%	95.9%	90.0%	93.6%	94.0%	95.2%	95.1%
YoY Change	*1.4%*	*-1.4%*	*1.6%*	*2.5%*	*-3.4%*	*-0.2%*	*-0.4%*	*0.9%*	*-0.8%*
Adj, EBITDA Margin	36.5%	36.4%	44.4%	46.7%	44.4%	43.0%	41.3%	43.5%	46.5%
YoY Change	*2.8%*	*2.3%*	*7.7%*	*9.8%*	*6.0%*	*6.5%*	*4.9%*	*-0.9%*	*-0.2%*

Each KPI Down YoY

After A Period of Strong EBITDA Margin Expansion……… Now Declining[1]

Source: MSCI and Spruce Point analysis

1) For an explanation of drivers of 2022 expense decrease and 2023 increase see 2022 10-K and Q3'23 10-Q

Spruce Point
Capital Management

MSCI's Portfolio And Risk Analytics Solutions Are Extremely Dated

MSCI's Analytics was built with acquisitions dating 15 – 20 years ago and are still anchored by RiskMetrics and Barra solutions. Furthermore, even these acquired companies' core methods were developed decades earlier. Not surprisingly, a recent industry expert interview opined that MSCI's models are becoming commoditized.

Most Popular Expert Calls

Competitor 28 Mar 23

Former Competitor Thinks MSCI's Risk Models Are Becoming Commoditized

- Thinks FDS hasn't taken many big bets or really captured anything for alternative assets
- In the expert's opinion, MSCI provides a standard equity risk model, which probably has been commoditized a bit

Source: AlphaSense Market Intelligence

MSCI's Acquisitions In Portfolio And Risk Analytics

Date / Target	Ent. Value	Description	EV / Est Sales
2004 / Barra, Inc	$816.4	Risk management systems and services to managers of portfolio and firmwide investment risk **founded in 1975**.	5.8x
2010 / RiskMetrics	$1,055	Provider of risk management and corporate governance products and services to the global financial community. The methodology was **developed in JPMorgan in 1992**.	4.9x
2010 / Measurisk	$21	JPMorgan affiliated risk-transparency and risk-measurement solutions for hedge fund investors. **Founded in the late 1990s.**	1.6x

Source: MSCI press releases and SEC filings

Spruce Point Capital Management

18-Year MSCI Analytics Veteran Opines

A former 18-Year MSCI veteran and Director of Product Management in Analytics who built and commercialized the Barra and RiskMetrics portfolio analytics commented recently on a post questioning what risk models are out there in the market.(1) We believe the comment also supports our view that the marketplace is competitive, and that AI and machine learning will narrow the competitive gap among players.

Insight From Former Analytics Employee

Dan Sinnreich • 2nd 2mo •••

AI/ML Product @ AWS

It's less about brain power - lots of physics PhDs in quant land - and more about the difficult and unglamorous job of sourcing, curating, managing, and QAing data, and the 24/7 operations to ensure updates are there every day, on time, for every asset class, for every model, for every client. Disclaimer: I worked on the Barra models for a long time...

Like · 2 | Reply

Spruce Point's View

If the risk and analytics space is less about brain power and more about data management, isn't this exactly the type of work that large language, machine learning and artificial intelligence will improve to reduce competitive barriers and costs?(2)

Competitor	Description
FactSet	Multi-asset class risk models.
BlackRock	Aladdin Risk is a subset of the full Aladdin platform. It combines our sophisticated risk analytics and highly scalable processing capabilities to enable you to see your whole portfolio, understand risks and exposures.
Omega Point	Investment intelligence using intuitive interface and accessible API to increase the impact of risk management, portfolio management and research teams.
North Info	Risk management analytics provider founded in 1985.
Portx	Portx is a portfolio management software platform for discretionary institutional investors. We represent decision makers who want to improve their performance while taking control of their risk management.
Theia Insights	Theia Insights was formed in early 2022 to build a unique Factual AI solution to streamline the complex task of portfolio analysis, benchmarking and report writing.
Able Markets	AbleMarkets offers a unique solution by harnessing the power of big data analytics and artificial intelligence to provide investors with real-time market intelligence.
Quant Insight	Build better portfolios by accessing rigorous data analytics.

1) Sinnreich's LinkedIn profile and LinkedIn thread
2) See *"How AI Is Improving Data Management"*, MIT Sloan Management Review, Dec 20, 2022

Spruce Point Capital Management

Former MSCI Leaders Become Competitors….

Given the size and maturity of MSCI's business, there has been a talent drain and movement of key executives to competitors across each of MSCI's major businesses.

	MSCI Role / Tenure	Current Role	Competition Against MSCI
Gary Retelny	Former CAO and Head of Strategy and Business Development and Executive Committee Member / ~10.5 years	CEO of Institutional Shareholder Services STOXX (part of Qontigo)	Indices and ESG
Linda Huber	CFO and Executive Committee Member / 1.5 years	CFO of FactSet	Analytics
Peter J. Zangari	MSCI's Global Head of Research and Product Development and Executive Committee Member / ~12 years	Partner and Head of Americas at MDOTM	Analytical and Generative AI Solutions for Asset and Wealth Management
Arun Singhal	Global Head of Product Marketing for Analytics, Factors and Indexes / ~5 years	Qontigo, Global Head of Index Product Management	Analytics and Indices
Mohan Verma	MD, Global Head of Partnerships / 11 years	Qontigo, Global Head of Business Development	All
Sylviane Carot	Executive Director, ESG and Equity Index Sales, SE Asia / 13 years	Morningstar, Head of APAC ESG Alliances and Redistribution	ESG and Indices

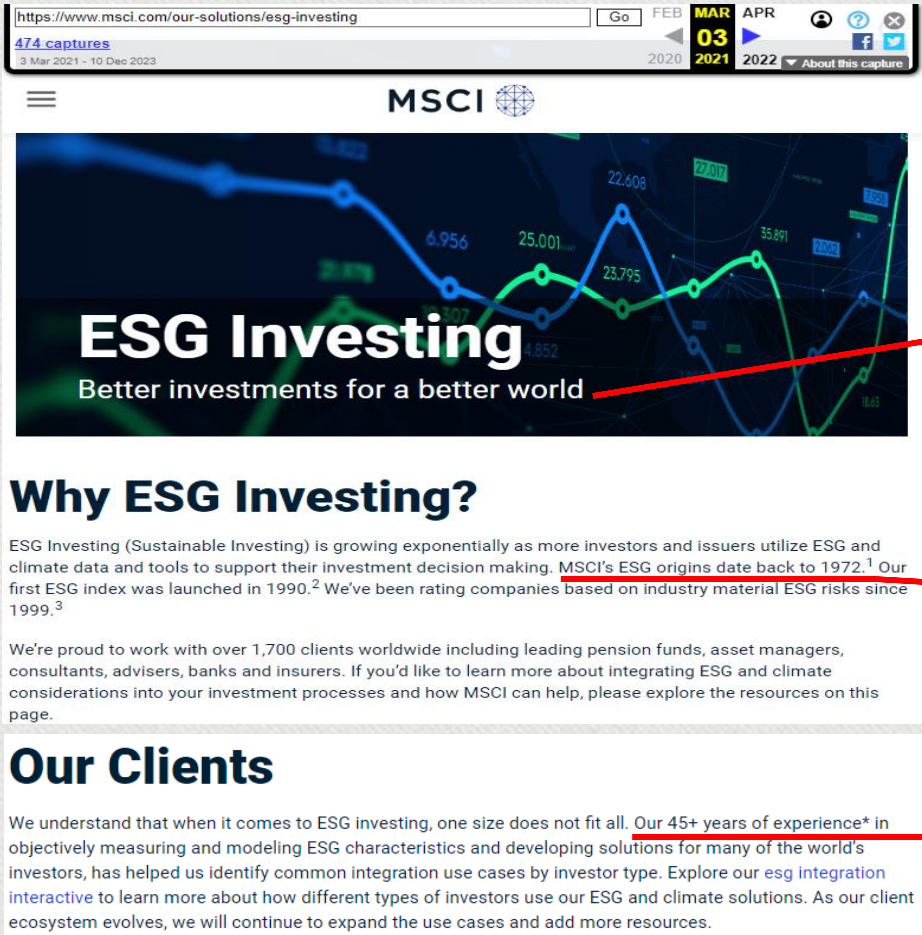
Source: Retelny LinkedIn, Qontigo/Singhal, Qontigo/Verma, MDOTM/Zangari, FactSet/Huber, Morningstar/Carot

"Growth" Areas Such As The ESG & Climate And Private Assets Segments Are Now Also Under Pressure

MSCI's ESG Website Modified And Retracted Key Claims

MSCI either made misleading or erroneous claims about its ESG business by originally stating that its origins were from 1972 and later revising the statement to 1988. MSCI also no longer claims that ESG is *"Better investments for a better world"*.

MSCI ESG Website - 2021	MSCI ESG Website - Current



https://www.msci.com/our-solutions/esg-investing

474 captures

3 Mar 2021 - 10 Dec 2023

MSCI

ESG Investing

Better investments for a better world

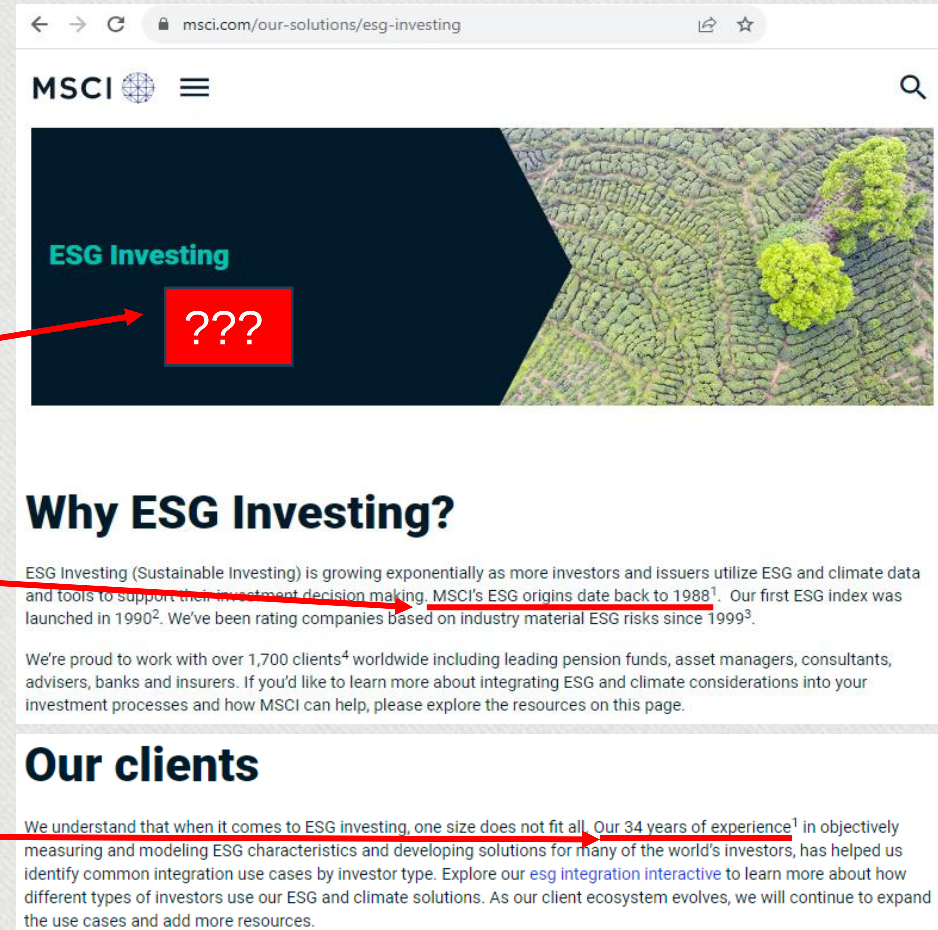
Why ESG Investing?

ESG Investing (Sustainable Investing) is growing exponentially as more investors and issuers utilize ESG and climate data and tools to support their investment decision making. MSCI's ESG origins date back to 1972.[1] Our first ESG index was launched in 1990.[2] We've been rating companies based on industry material ESG risks since 1999.[3]

We're proud to work with over 1,700 clients worldwide including leading pension funds, asset managers, consultants, advisers, banks and insurers. If you'd like to learn more about integrating ESG and climate considerations into your investment processes and how MSCI can help, please explore the resources on this page.

Our Clients

We understand that when it comes to ESG investing, one size does not fit all. Our 45+ years of experience* in objectively measuring and modeling ESG characteristics and developing solutions for many of the world's investors, has helped us identify common integration use cases by investor type. Explore our esg integration interactive to learn more about how different types of investors use our ESG and climate solutions. As our client ecosystem evolves, we will continue to expand the use cases and add more resources.



msci.com/our-solutions/esg-investing

MSCI

ESG Investing

???

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Source: Wayback Machine and current website

ESG Backlash Is A Headwind

There has been a notable movement against ESG investing, for example, by leaders in states dependent on companies in less environmentally friendly industries. The backlash is real and ESG funds underperformed for a second straight year. Even BlackRock's CEO said he stopped using the word ESG as it has become weaponized.

ESG Funds Are Underperforming

ESG INVESTING

ESG Funds Underperformed in 2023. Backlash Wasn't the Problem.

By Lauren Foster Follow
Jan 09, 2024, 1:30 am EST

In this article
BLK PBW SPX

North American ESG funds continued to underweight big tech names such as Apple, Microsoft, and Alphabet in 2023. DREAMSTIME

Do well by doing good? Don't count on it.

Funds that invest using environmental, social, and governance, or ESG, criteria underperformed for a second consecutive year.

According to data from Morningstar Direct, sustainable U.S. equity funds were up an average 21.6%, including dividends, through Dec. 31, trailing the S&P 500 total returns index by about five percentage points. In 2022, the average sustainable U.S. equity fund was down 19.5%, against a loss of 18.1% for the index.

Morningstar uses the term sustainable funds to refer to mutual and exchange-traded funds focused on impact, sustainability, or ESG risk factors.

Blowback on ESG

REUTERS®

Focus: Business fights back as Republican state lawmakers push anti-ESG agenda

By Ross Kerber
April 24, 2023 1:57 PM EDT · Updated 9 months ago

Aa

COMMENTARY

ESG Backlash Is Real and Growing. What to Know.

By Paul Washingto, Andrew Jones and Paul Washington
Aug 22, 2023, 9:05 am EDT

Reprints

DREAMSTIME

*About the authors: **Paul Washington** is executive director of the ESG Center at The Conference Board. **Andrew Jones** is a senior researcher at the center.*

The backlash against ESG—the use of environmental, social, and governance factors in business and investing—is real and likely to increase. As ESG has recently become a political flashpoint, understanding its impact should be a priority for corporate leaders, because investors are likely to judge them by their responses.

In a recent survey by The Conference Board of more than 100 large U.S. companies, nearly half said they have already experienced ESG backlash, and 61% expect it to persist or intensify in the next two years.

Source: ESG Underperformance (Barrons), ESG Backlash is Real and Growing (Barrons), Fink stops using ESG (Reuters), Businesses fight back (Reuters)

ESG & Climate Segment Under Pressure

The ESG & Climate segment is ~15% of revenue and ~6% of Adj. EBITDA but has been the fastest growing segment within the overall business. Spruce Point is alarmed by the recent trends observed. While both total revenue and Run Rate revenue are showing annual and sequential quarterly growth decline, the reported Retention Rate has also been declining for multiple quarters. However, segment Adj. EBITDA appears to be expanding and we fail to understand how a business that is facing pressures and obvious client retention issues is achieving this result. In Q2'22 even the CFO said there was no target for margin expansion and yet margins are +880bps since. Management should provide enhanced disclosure to explain how this is possible.

MSCI ESG & Climate Segment						
$ in mm	**2020**	**2021**	**2022**	**Q1'23**	**Q2'23**	**Q3'23**
Recurring Revenue	$109.9	$162.6	$223.2	$65.7	$70.0	$71.7
Non-Recurring Revenue	$1.4	$3.6	$5.2	$1.3	$1.2	$1.3
Total Revenue	**$111.4**	**$166.2**	**$228.3**	**$67.1**	**$71.2**	**$73.0**
% YoY growth	*23.6%*	*49.2%*	*37.4%*	*28.9%*	*29.2%*	*26.8%*
% QoQ growth	--	--	--	*5.5%*	*6.2%*	*2.6%*
Adj. EBITDA	**$22.9**	**$29.7**	**$61.1**	**$17.9**	**$22.8**	**$25.4**
% margin	*20.5%*	*17.9%*	*26.8%*	*26.7%*	*32.0%*	*34.8%*
YoY margin change	--	***-2.6%***	*8.9%*	*3.4%*	*6.0%*	*7.2%*
Retention Rate	***94.5%***	***96.5%***	***97.2%***	***96.1%***	***96.9%***	***96.0%***
% YoY change	*0.9%*	*2.0%*	*0.7%*	***-2.6%***	***-0.4%***	***-1.4%***
% QoQ change	--	--	--	*0.7%*	*0.8%*	***-0.9%***
ESG Run Rate	**$138.3**	**$199.6**	**$267.0**	**$278.9**	**$291.8**	**$297.3**
% YoY growth	*36.4%*	*44.3%*	*33.8%*	*29.0%*	*26.2%*	*25.0%*
% QoQ growth	--	--	--	*4.5%*	*4.6%*	*1.9%*

Margin Discussion CFO Q2'22

"Yes. Obviously, we don't give margin targets by segment, but I would say that within ESG and Climate, our focus is really on driving top line growth, not margin expansion. ***And so we're not targeting for the margin to expand from current levels****."*

Slowing sequential growth and multiple quarters of retention rate declining.

Margins increasing in the face of negative trends?

Source: MSCI and Spruce Point analysis

Capitalized Expenses Increasing In ESG

While MSCI does not provide granular quantified impacts of capitalized expense items per segment, we observe that it recently started disclosing that its was increasing capitalized expenses related to software projects in the ESG segment. This may be because it is electing to harmonize Section 174 tax and book methods. Capitalizing more expenses has the obvious impact of enhancing current period margins.

Recent Disclosures of Capitalized Expenses Within ESG & Climate	
Q3'22	*"ESG and Climate segment Adjusted EBITDA expenses increased 23.1% for the three months ended September 30, 2022 compared to the three months ended September 30, 2021, primarily driven by higher compensation expenses across all spending categories, as a result of increased wages and salaries and benefits costs, due to higher headcount,* ***partially offset by increased capitalization of expenses related to internally developed software projects****."*
2022 10-K	*"ESG and Climate segment Adjusted EBITDA expenses increased 22.6% for the year ended December 31, 2022 compared to the year ended December 31, 2021, reflecting higher compensation and non-compensation expenses to support growth across all expense categories. The increase was primarily driven by increased salaries and benefits costs, as a result of increased headcount, as well as increased information technology costs and professional fees.* ***The increase was partially offset by increased capitalization of expenses related to internally developed software projects****."*
Q1'23	**No Capitalization Disclosure** *"ESG and Climate segment Adjusted EBITDA expenses increased 23.1%, primarily driven by higher compensation expenses across all expense activity categories as a result of increased wages and salaries, incentive compensation and benefits costs. The change was also driven by higher non-compensation expenses across all expense activity categories, primarily due to higher information technology costs and professional fees. Adjusting for the impact of foreign currency exchange rate fluctuations, ESG and Climate segment Adjusted EBITDA expenses would have increased 27.4%."*
Q2'23	*"ESG and Climate segment Adjusted EBITDA expenses increased 18.7% for the three months ended June 30, 2023, primarily driven by higher compensation expenses across all expense activity categories as a result of increased wages and salaries, incentive compensation and benefits costs due to higher headcount,* ***partially offset by increased capitalization of expenses related to internally developed software projects****."*
Q3'23	*"ESG and Climate segment Adjusted EBITDA expenses increased 14.2% for the three months ended September 30, 2023, primarily driven by higher compensation expenses across all expense activity categories. The increase reflects higher wages and salaries and incentive compensation.* ***The increase was partially offset by increased capitalization of expenses related to internally developed software projects****."*

Source: MSCI SEC filings

Spruce Point Capital Management

Management Is Dismissive of Any Changes In Competitive Dynamics

MSCI notably added Bloomberg and Moody's to its competitor list in its recent 10-K filing. Meanwhile, both the CFO and COO have downplayed any greater competition. We believe this undermines their credibility.

	ESG & Climate Competition Discussion In The 10-K
2021	*"ESG and Climate. Our ESG and Climate offerings compete with a growing number of companies that issue ESG data, ratings or research. For example, our ESG and Climate offerings compete with those from a range of competitors, including Sustainalytics Holding B.V. (a part of Morningstar, Inc.), Institutional Shareholder Services Inc. (majority owned by Deutsche Börse AG), Trucost (an S&P Global Inc. business) and Refinitiv (a London Stock Exchange Group business)."*
2022 (disclosed Feb 2023)	*"ESG and Climate. Our ESG and Climate offerings compete with a growing number of companies that issue ESG data, ratings or research. For example, our ESG and Climate offerings compete with those from a range of competitors, including Sustainalytics Holding B.V. (a part of Morningstar, Inc.), Institutional Shareholder Services Inc. (majority owned by Deutsche Börse AG), Trucost (an S&P Global Inc. business), Refinitiv (a London Stock Exchange Group business), **Bloomberg and Moody's Corporation**."*

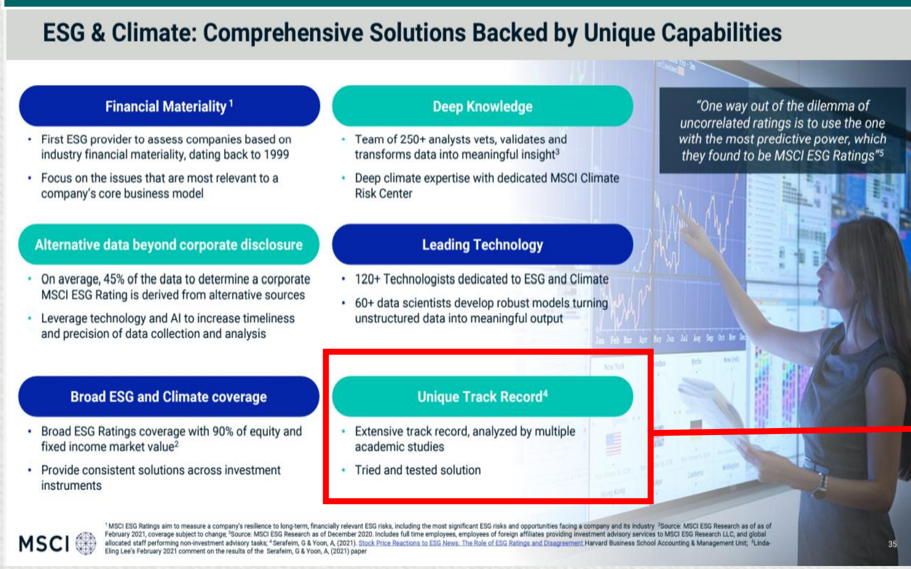
	Executive Comments On ESG & Climate Competition
CFO JPMorgan Conf. Nov 2022	**Question:** *"I know you guys speak sometimes to the breadth of your offering, but also that MSCI are advantaged with respect to the depth and quality of your ESG and Climate data versus many of your peers."* **Answer:** *"So probably the cleanest way to answer this is just to say we have the premium price offering out there. Generally, we are the most expensive tool, and that's a reflection of the quality and the capability that we have relative to competitors. And you can see the growth rate that we've been delivering, which is generally at or above the competitors that are aware of and publicly report the data. So it's not that we're losing market share. **And you can see the retention rates that we've seen to this point, which have been remarkable. So we're not seeing a lot of clients at all cancel and move to competitors**."*
COO Barclays Conf May 9, 2023	**Question:** *"Like just to be clear, like ESG growth had nothing to do with any competitive landscape?"* **Answer:** *"But we did outperform. **So I think in terms of ESG, I don't think many dramatic differences**, Index, similarly. So I don't think -- **I think the competitive landscape is fairly stable**."*

Source: 2021 vs. 2022 10-K

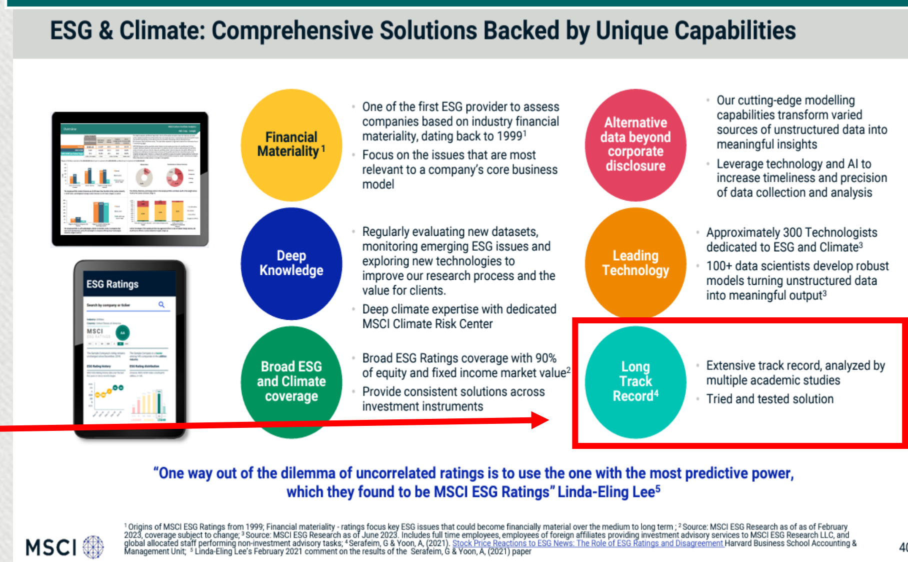
Recent Change To ESG Track Record Claim Weakens MSCI's Positioning

Spruce Point finds additional evidence that either MSCI exaggerated historical claims about its ESG and Climate business or has a weakening market position. In 2023, MSCI changed its representation that it has a *"**Unique** Track Record"* to a *"**Long** Track Record"*. To say that something is unique means that it is one of a kind, or unlike anything else. We view this modification in choice of words, along with MSCI expanding disclosure of competitors in the recent 10-K, as an indicator that its ESG and Climate business is coming under increased pressure.

Investor Presentation: November 2021



Investor Presentation: November 2023



Source: MSCI Investor Relations and Presentations

Recent Decline In ESG Issuers Rated

MSCI's regulatory filings for MSCI ESG Research LLC tells a different story about its business. We see that between March 2022 – March 2023 the number of issuers with ratings declined from 17,500 to 16,500.

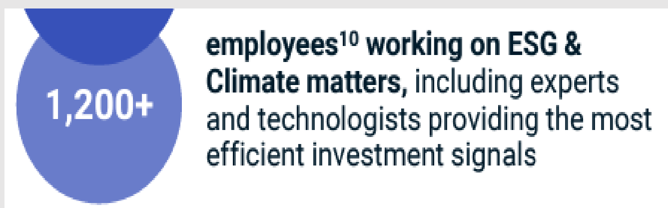
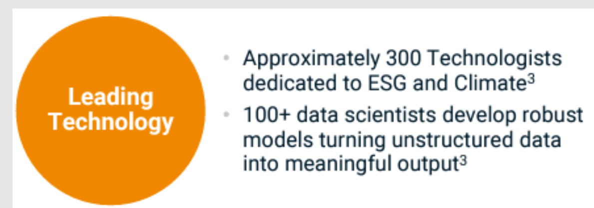
Number of Rated Companies And Issuers	
March 10, 2021	**MSCI ESG Ratings:** The MSCI ESG Ratings product measures exposure to and management of key ESG risks and opportunities for more than 8,700 companies globally (14,000 issuers including subsidiaries). The offering includes company level ratings, scores, and data, as well as company, industry and thematic reports. ESG Ratings can be sold and licensed for our entire coverage universe, or for a subset. Additionally, ESG Ratings are available on the ESG Ratings web page at https://www.msci.com/our-solutions/esg-investing/esg-ratings/esg-ratings-corporate-search-tool
March 24, 2022	**MSCI ESG Ratings:** The MSCI ESG Ratings product measures exposure to and management of key ESG risks and opportunities for more than 10,000 companies (17,500 issuers including subsidiaries). The offering includes company level ratings, scores, and data, as well as company, industry and thematic reports. ESG Ratings can be purchased and licensed for our entire coverage universe, or for a subset. Additionally, ESG Ratings are available on the ESG Ratings web page at https://www.msci.com/our-solutions/esg-investing/esg-ratings/esg-ratings-corporate-search-tool
March 10, 2023	**MSCI ESG Ratings:** The MSCI ESG Ratings product measures exposure to and management of key ESG risks and opportunities for more than 10,000 companies (16,500 issuers including subsidiaries). The offering includes company level ratings, scores, and data, as well as company, industry and thematic reports. ESG Ratings can be purchased and licensed for our entire coverage universe, or for a subset. Additionally, ESG Ratings are available on the ESG Ratings web page at https://www.msci.com/our-solutions/esg-investing/esg-ratings/esg-ratings-corporate-search-tool

Source: 2023, 2022, and 2021 Form ADV 2A filing

SPRUCE POINT
CAPITAL MANAGEMENT

Now Over 1,300 People?

ESG & Climate segment Adj. EBITDA Margins have increased 720bps from Sept 2022 – 2023 with headcount having grown from under 1,000 to approximately 1,300 according to the Head of ESG. While Retention Rate declines and revenue growth slows, we expect margins to contract.

ESG Employees and Analyst Researchers	
Eric Moan **Head of ESG** **Barclays Conf** **Sept 12, 2022**	*"Yes. I mean -- and if I think back on the 11 years ago, when I joined, it was probably about 100 people, I think, at that time. We have both direct head count that is exclusively dedicated to ESG and Climate, and then we have shared services. Like I think even Andy, we get a portion of it your allocation. **And it's not 100 to -- it's less than 1,000, but it's getting up near that area in terms of both direct and allocated because the -- it's growing in both technology resources**, in data collection resources and in client-facing and product resources. So it's -- we've been growing commensurately in investing for this wave of -- at the end of the day, providing deeper insight and investment decision support tools around these ESG and Climate and now regulatory risk that clients are facing."*
Nov 2023 Investor Presentation **Slides 39, 40** **As of June 2023**	 
Eric Moan **Head of ESG** **Barclays Conf** **Sept 11, 2023**	*"Yes. So we've -- I think when I joined in, again, around 2012, we were probably 100 people in the industry. **And now we are over 1,000 something like 1,300 people**, when you look at both people that are 100% focused on ESG and Climate and then everything that comes around it, like the technology in support of everything. So we're well over 1,000 people. So that's just like our revenues have grown times 10, the resources on people have grown."*

ESG Rating Brochure Hasn't Been Updated In Three Years

Spruce Point questions how much attention is really being paid to MSCI's ESG rating business? The Company brochure available on the website has not been updated in more than three years.

MSCI ESG Rating Company Brochure


MSCI ESG Ratings

Integrating MSCI ESG Ratings into investment decision making can help identify risks and opportunities that may not be captured by conventional financial analysis.

Eric Moen
Managing Director, MSCI ESG Research

2 msci.com

MSCI
ESG Ratings

More insight. More context. More informed decisions.

MSCI ESG Ratings uses a rules-based methodology designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. Leveraging Artificial Intelligence (AI), machine learning and natural language processing augmented with our 200+ strong team of analysts, we research and rate companies on a 'AAA' to 'CCC' scale according to their exposure to industry-material ESG risks and their ability to manage those risks relative to peers.

Overview

We have over 40 years of experience through our legacy companies collecting, cleaning, standardizing and modelling ESG data from thousands of sources to create a precision tool for a clear signal of ESG performance.

MSCI research has identified that the ESG factor in MSCI ESG Indexes, such as the ACWI ESG Leaders Index shown below, has contributed to outperformance[1]

200+	1,500	1,700
ESG Analysts (Over 350 FTE[2])	ESG Equity and Fixed Income Indexes[3]	ESG Research Clients Worldwide

MSCI ACWI ESG Leaders Index

Cumulative index performance – gross returns (USD) Sep 2007 – Oct 2020

[1] MSCI ESG Indexes during the coronavirus crisis https://www.msci.com/www/blog-posts/msci-esg-indexes-during-the/01781235361

[2] Source: MSCI ESG Research as of October 2020. Includes full time employees, employees of foreign affiliates providing investment advisory services to MSCI ESG Research LLC, and global allocated staff performing non-investment advisory tasks.

[3] MSCI ESG Indexes and MSCI Analytics utilize information from, but are not provided by, MSCI ESG Research LLC. MSCI Indexes are products of MSCI Inc. and are administered by MSCI Limited.

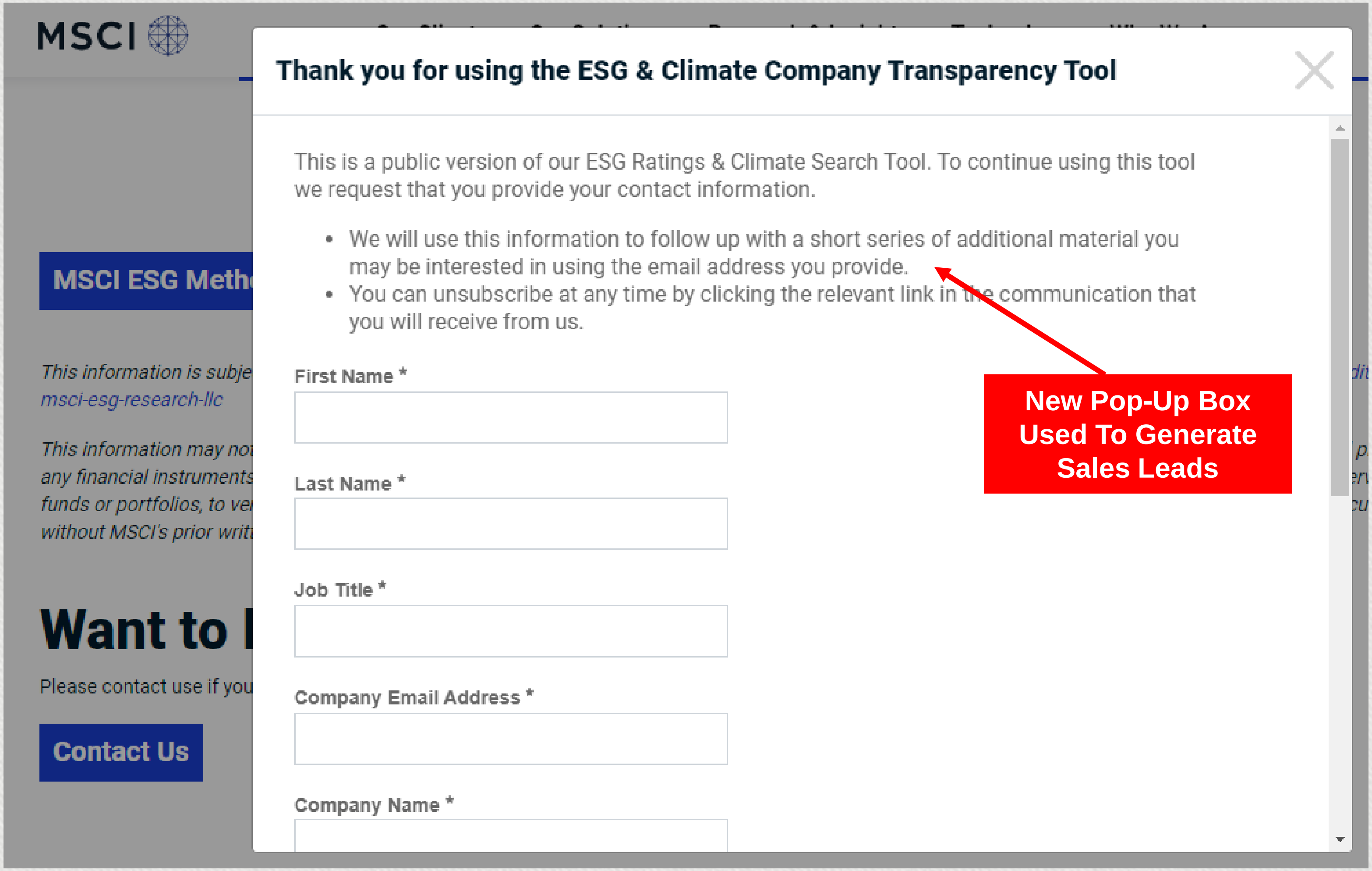
msci.com 3

Last updated Oct 2020

Source: Wayback Machines (Nov 2021) and Current Brochure

More Evidence That ESG & Climate Is Under Pressure

MSCI added a pop-up box requiring users to submit information for a sales lead follow-up when searching for company ESG and Climate ratings. We view this as an indicator that MSCI is stretching for new client opportunities.



Source: MSCI website

Spruce Point Capital Management

Bloomberg's ESG Offering

Spruce Point believes that Bloomberg is emerging as a powerful new player in the ESG and Climate space and that MSCI is aware of this by now disclosing it as a competitor. Bloomberg offers a comprehensive suite of analytics under the ESG function for public equities that it tracks.

AAPL US Equity | Methodology ▾ | ESG Controversies News | ESG Analysis

Overview | ESG Scores | Climate | EU Taxonomy | SFDR

Financial Materiality Scores | ESG SCORE »

	Score	Trend	Vs Peers
ESG Score	5.75	--	Leading
Environmental	5.65	--	Leading
Social	4.93	--	Leading
Governance	7.35	--	Leading

Third-Party Scores | RV ESG »

MSCI Rating	BBB
Sustainalytics	
Risk Score	17.22
Risk Category	Low
Controversy Level	3.00
S&P Global ESG Rank	60.00

EU SFDR | ESG SFDR »

M4 Fossil Fuel Exposure	.00
M10 UNGC Violations	N
M13 % Women on Board	33.33

EU Taxo | ESG EUTAXO »

Estimated Eligible Rev %	80.19
Estimated Aligned Rev %	--
Aligned CAPEX %	--
Aligned OPEX %	--

Disclosures | FA ESG »

ESG Disclosure Score	61.56

Revenue Breakdown | CCB »

Communications Eq...	52.33%
Internet Media & Se...	22.23%
Computer Hardware...	15.04%
Consumer Electroni...	10.40%

GHG Targets | ESG NETZ »

Net Zero Targets	Y
Science-Based Targe...	Y

GHG Emissions | ESG GHG »

GHG Data Type	Estimated
Total GHG	1,428.39
Total GHG/Sales	3.72
Total GHG/EVIC	0.51

Temperature Rise | ESG TR »

Scope 1+2 Mid Term	.95C

Country/Region Climate Score | GOVS »

Ctry of Risk	US
Ctry Net Zero Status	Under discussion
Ctry Net Zero Targe...	2050
Ctry Climate Score	4.09

SDG Potential Rev % | ESGD SDG »

Avg Pos SDG Impact %	11.81
Avg Neg SDG Impact %	-42.16
Avg Net SDG Impact %	-30.35

Sustainable Debt | SRCH »

Green Debt	3,190
Social Debt	--
Sustainability	--
Sustainability-Linked	--
Transition	--
Total	3,190

ESG Fund Exposure | FSRC »

ESG Funds	2312

EU SFDR Fund Exposure | FSRC »

Article 9 Funds	78
Article 8 Funds	2002

Source: Bloomberg

New EU Regulations Focused on Transparency & Conflicts Of Interest

On December 20th, 2023, The European Council reached an agreement on its negotiating mandate on a proposal for a regulation on ESG ratings. The new rules aim to strengthen the reliability and comparability of ESG ratings by improving the transparency and integrity of the operations of ESG ratings providers, making ratings more comparable and preventing potential conflicts of interests.[1] We believe with new regulation and the heightened focus on conflicts of interest, MSCI could face increased pressures.

ESG Ratings of ESG Index Providers	
Mairead McGuinness, Commissioner for Financial Services, Financial Stability and Capital Markets Union at European Commission	*"Because ESG ratings which score companies on Environment, Social and Governance factors – at the moment, this area is completely unregulated. And therefore if it's unregulated, it's very difficult to compare information between these rating agencies. And it's difficult then to interpret what they mean. So we don't have clarity on how these ratings are reached or what they measure. And there seems indeed to be issues around conflict of interest by ESG rating providers. So our proposal today is about making ESG ratings transparent, comparable and reliable. And in this vein, we will have ESMA to provide the supervision, helping to combat this conflict of interest issue that I have raised."*[2]
Opinion of the European Economic and Social Committee	*"recommends further strengthening the rules on conflicts of interest by separating activities at group level and by empowering the European Securities and Markets Authority (ESMA) to effectively put an end to conflicts of interest"*[3]

1) Mandate on ESG Ratings,
2) Remarks by Executive Vice-President Dombrovskis and Commissioner McGuinness at the press conference on the sustainable finance package
3) Environmental, social and governance ratings

European Union Regulations of ESG Rating Providers May Give Rise To Competition

Spruce Point is not only concerned with MSCI's potential conflicts of interest, but it seems as though new regulations may increase competition in the European Union ESG rating universe. Not only is competition increasing in the U.S. within many pieces of MSCI's business, but new competition appears to be on the horizon in the European Union.

ESG Ratings of ESG Index Providers	
Competition	*"It is necessary to have a number of measures supporting smaller ESG rating providers to enable them to continue their activities, or to enter the market after the date of application of this Regulation. Against this background, a temporary regime should be introduced to facilitate the market entry of smaller ESG rating providers and support the development of existing smaller ESG rating providers already operating in the Union before the entry into force of this Regulation. Under this temporary and optional framework, ESG rating providers categorized as small undertakings or as small groups should register with ESMA, without the need for authorisation, and should only be subject to specific provisions on organisational requirements and to provisions on transparency requirements."*(1)
Report on the proposal for a regulation of the European Parliament and of the Council on the transparency and integrity of ESG activities	*"Competition among ESG rating providers and an environment in which small ESG rating providers can enter the market are key, as concentration among providers can result in higher prices, barriers to entry, lower competition, reduced innovation, less geographical diversity in providers and poor coverage of smaller issuers. Entities that seek more than one ESG rating should therefore consider choosing at least one ESG rating provider with a market share below 15%."*

1) Council Mandate 2) European Parliament Proposal

Spruce Point Capital Management

Insights From A Former ESG Employee

Spruce Point interviewed a former MSCI ESG employee who has familiarity with the industry for nearly a decade.

Spruce Point Interview	
Question	*"And is it fair to say that the ESG movement has seen lower growth recently just due to, I don't know, regulatory uncertainty particularly in Europe or more competition? How do you describe the overall market right now and demand for ESG products and solutions?"*
Answer	*"In respect to MSCI ESG, yes, there's been slower growth, substantially slower growth as far as I know.* ***And one of the reasons why I also left MSCI is because I anticipated that there's a very strong saturation of the market with ESG or ratings, which is the product which MSCI can charge the most for. And any other products which are in the family of ESG family of products, ESG family of products, they are nowhere close in terms of how much value they bring to the client base. Plus, they're not sticky and they're not as pricey****."*

Source: Spruce Point Research Interview

Insights From A Former ESG Employee (Cont'd)

Spruce Point Interview	
Question	*So just to summarize what you're saying is you think that their ratings product is their highest valued product, but you think it's becoming more saturated, more difficult to sell versus some of their other ESG products that are less developed and carry lower margins. Is that a fair statement?*
Answer	*"**It's a fair statement**. One thing to understand about the ESG space and the whole dynamics of the space in the MSCI ecosystem that is driven by the asset owners and MSCI has its own unit that targets asset owners. So they obviously speak with the pension plans all across the U.S., Canada, and America's. But that same situation in different regions. And then if the asset owners buy into the MSCI approach, meaning any type of product that they need for any type of approach that they decide to go about, then you have this trickle-down effect. So obviously all the asset managers that are subjected to the ESG integration effort by the asset owners have to follow suit. Meaning that if you are an asset manager, which you are and you get a mandate from some pension plan or some asset owner, whatever, it could be an endowment foundation, whatever it is. So they provide you with capital and they attach certain strings to that. They say, listen, I give you capital, but you have to follow the ESG risk criteria. And you are like, okay, what is that, well talk to MSCI, why should I talk to them? Because we actually talk to them and they explain to you how to buy it how to do it and we use the tools. **So if you are manager, you can technically shop around and you can go to Sustainalytics, ISS, Thompson Reuters, Bloomberg, et cetera**. But why would you do that? Your client is using MSCI and ESG is not a very standardized area yet, right? So ESG ratings for example, there's very low correlation between ESG ratings and the product equivalent product of Sustainalytics, which is the closest competitor. So if you're going to use Sustainalytics product, then how are you going to communicate with your client? It may be cheaper, maybe something half cheaper than this is what MSCI is providing to you, but you're going to go with MSCI because it's the safer bet and you retain this capital and you want to make your client happy. **So that's the dynamic and why am I talking about it is because if you think about it, those pension plans, those asset owners that MSCI was able to capture and this trickle-down effect already happened in especially these larger asset managers and the larger asset managers, you can charge also the most for utilizing this product, especially for ESG rating**."*

Source: Spruce Point Research Interview

Private Assets Segment Results Are Failing To Achieve Goals

Spruce Point observes that MSCI's Private Assets segment has reported dismal results and has not achieved its high teens revenue growth targets. Organic growth recently went negative while segment retention rate is negative on both a QoQ and YoY basis. This may have been another motivator for MSCI to acquire The Burgiss Group recently at what we believe is a wildly inflated valuation.

Real Capital Analytics (RCA) Aug 2, 2021	"***We have a strong conviction in our ability to create incremental value from this combination and are raising our long-term target for real estate revenue growth to the high-teens from the mid-teens percentage range***."

Segment Results: All Other – Private Assets

	2021	2022					2023		
$ in mm	FY(1)	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Total All Other– Private Assets Segment Revenue	**$81.3**	**$37.4**	**$34.0**	**$35.9**	**$33.7**	**$141.0**	**$38.7**	**$37.7**	**$36.0**
YoY Growth	*51.3%*	*117.7%*	*100.2%*	*130.0%*	*6.9%*	*73.4%*	*3.6%*	*10.9%*	*0.3%*
QoQ Growth	--	*18.6%*	*-8.9%*	*5.4%*	*-6.2%*	--	*14.9%*	*-2.5%*	*-4.6%*
Organic Revenue Growth	***4.0%***	***11.6%***	***-5.5%***	***30.6%***	***13.8%***	***12.5%***	***8.0%***	***11.9%***	***-1.3%***
Retention Rate	**90.5%**	**94.1%**	**96.0%**	**94.8%**	**92.6%**	**94.4%**	**92.1%**	**92.8%**	**91.3%**
QoQ Retention Change	--	*6.0%*	*1.9%*	*-1.2%*	*-2.2%*	--	*-0.5%*	*0.7%*	*-1.5%*
YoY Retention Change	*-4.0%*	*-1.0%*	*2.3%*	*3.8%*	*4.5%*	*3.9%*	*-2.0%*	*-3.2%*	*-3.5%*

Source: MSCI SEC reporting and press releases
1) RCA closed Sept 13, 2021

Needing A Growth Spark, MSCI Has Exhibited An Alarming Pattern of Nepotism-Like Acquisitions And Alliances With MSCI / Morgan Stanley Alums

SPRUCE POINT
CAPITAL MANAGEMENT

Nepotism-Like Deals Benefiting Morgan Stanley / MSCI Alums

Spruce Point is alarmed by the recent pattern of MSCI's investments and alliances which appear to financially benefit members of MSCI, Morgan Stanley and former Morgan Stanley executives in the sphere of CEO and Chairman Henry Fernandez. Mr. Fernandez joined Morgan Stanley in 1983 and rose to prominence within the firm, leading to his appointment as MSCI's first CEO and Chairman.

Fabric's Co-Founder Was Morgan Stanley's First Chief Risk Officer

Industry career [edit]

Bookstaber joined Morgan Stanley in 1984, where he held positions in research and proprietary trading, and was appointed to be the firm's first market risk manager. In 1994 he moved to Salomon Brothers where he was the Managing Director in charge of firmwide risk. Following the purchase of Salomon Brothers by Citigroup he took on risk manager roles in a number of hedge funds, including Moore Capital Management and Bridgewater Associates; and also founded the FrontPoint Partners Quantitative Equities Fund.[6] He also worked at Ziff Brothers Investments doing both risk management and running a quantitative equity portfolio.

Bookstaber is the co-founder and head of risk at Fabric, which provides risk management applications for the wealth management and asset owner community.[7]

Burgiss' President Was An Executive Committee Member At MSCI And Head of Real Estate Products

NEW YORK, September 28, 2020 – MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, and The Burgiss Group, LLC, announced today that Jay McNamara, Head of Real Estate Product at MSCI, has been appointed President of Burgiss, effective October 2, 2020.

In January 2020, MSCI announced it had entered into a strategic relationship with Burgiss, a global provider of data, analytics and technology solutions for investors of private capital. The move reflects MSCI and Burgiss' strengthening alliance and continued commitment to accelerating and expanding the use of data, analytics, and other investment decision support tools for investors in private assets around the world.

In this newly cr… s, relationship ma… c direction to deliv… r, Mr. McNamara'… ill report to Founder and Chief Executive Officer, Jim Kocis.

He will be missed by MSCI, but he's back! Now Co-Head of Private Capital Solutions

"Jay is the right leader at this moment for Burgiss, which is enjoying great success," said Mr. Kocis. "As he has at MSCI, Jay will help build out a world-class team focused on the needs of our clients. We're excited to leverage Jay's strengths to accelerate our growth. And finally, a word to the team at MSCI who will miss him–many thanks for helping redefine what it means to be a partner."

MSCI Forms Alliance With Menai Financial Group Led By Former Morgan Stanley Co-President Zoe Cruz

Henry Fernandez, Chairman and CEO of MSCI, said: "Digital assets often get conflated with cryptocurrencies, but the market is far larger than that. Applications associated with digital assets are transforming long-established technologies such as payment, trading and settlement systems, among others. While investors are eager to enter the digital asset market as it matures, there is need for a robust suite of tools to gain reliable insight into the space.

"We are excited to fill that gap in collaboration with Menai and develop what is needed to power investment decisions in this evolving space. At MSCI, we are committed to capturing market disruptions—like digital assets—and helping our clients better understand their exposure to related trends as they construct portfolios with an eye towards forces shaping our future."

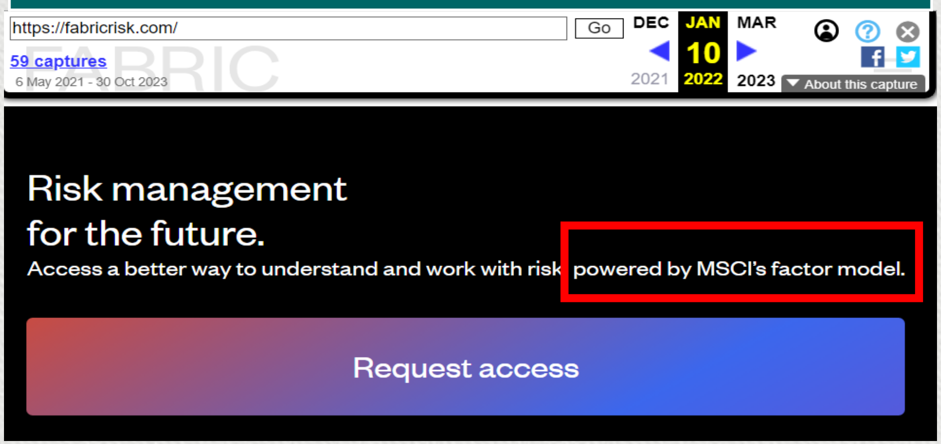
Zoe Cruz, Founder and CEO of Menai Financial Group, said: "Institutional players are keen to participate in the digital asset markets, but have historically struggled to find the means to do so in a way that meets the high standards of professionalism, scale, risk management, security and rigor required by traditional financial markets. We are thrilled to see a sophisticated, norm-setting player like MSCI enter the digital asset space and are honoured that they have chosen Menai as one of their partners in this endeavour. We look forward to working together with MSCI as it provides institutional investors with transparent, secure and efficient solutions to help navigate the digital assets space."

Source: McNamara Appointment At Burgiss, MSCI Executive Committee, McNamara Current Biography, Bookstaber biography and Wikipedia, MSCI Alliance with Mena Financial and Cruz Biography

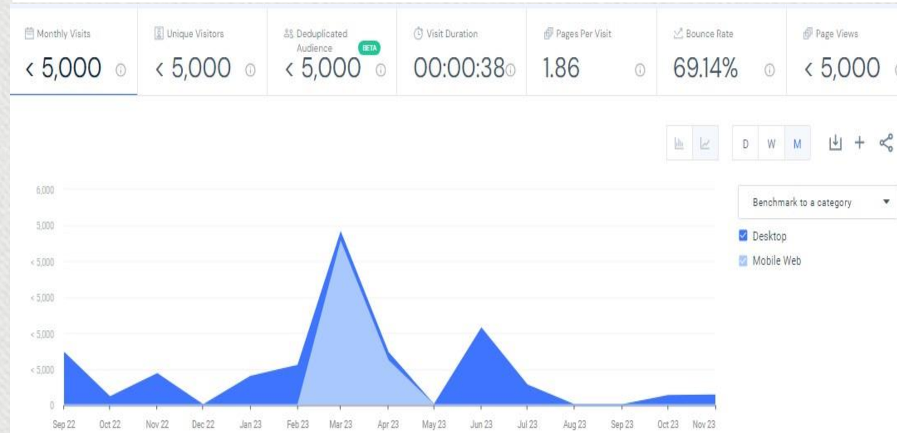
Spruce Point Questions The Fabric Acquisition

Spruce Point questions why MSCI bought Fabric which appears to have limited growth, is powered by its own Factor models, and whose co-Founder warned of dangers with indexing (MSCI's core business) – both since scrubbed from the website.

REMOVED: Powered By MSCI Factor Models?

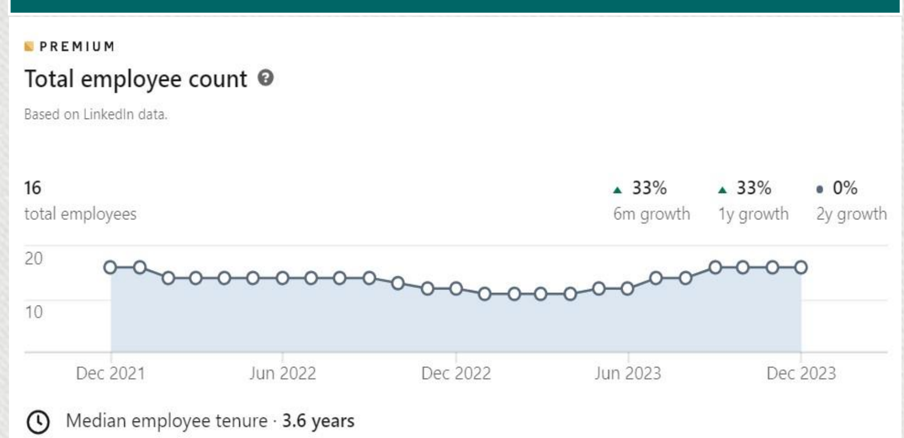


Similarweb Traffic For Fabric Shows Limited Growth



REMOVED: Co-Founder Warns Against Index Funds – The Backbone of MSCI's Business

Fabric's Workforce Shows Limited Growth



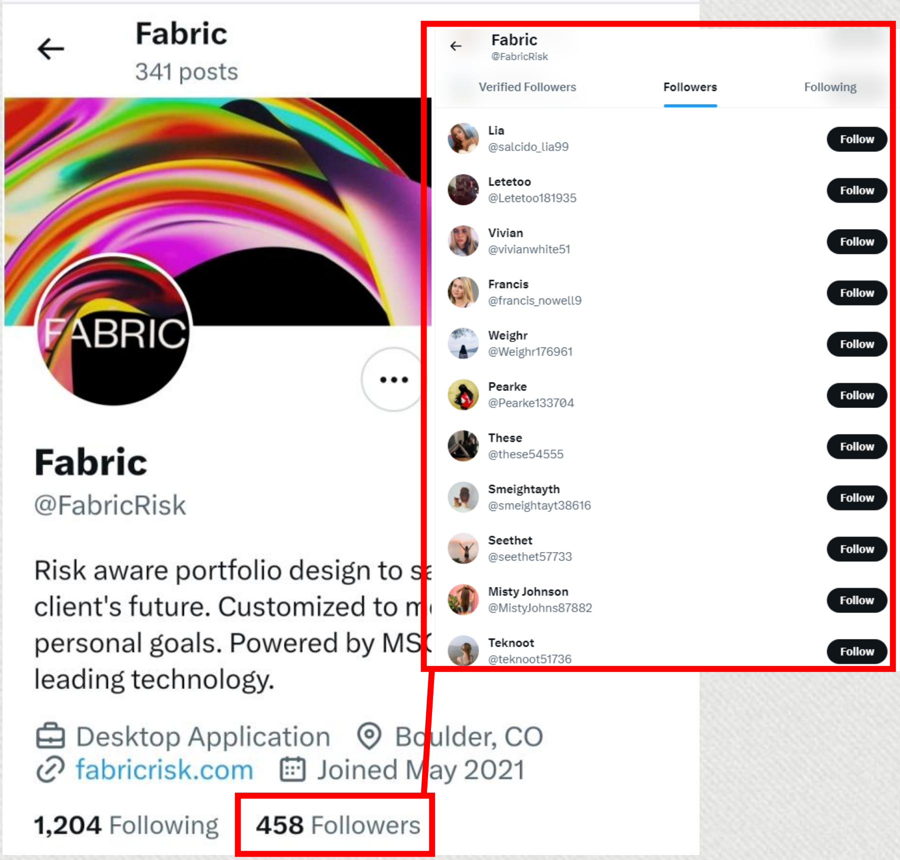
Source: Wayback Machine (Bookstaber), Wayback Fabric Homepage, Fabric website, LinkedIn, Similarweb

Amazing Outcome To Be Acquired By An S&P 500 Company….

Fabric's co-Founders hadn't seen each other in over a year – no doubt due to COVID-19. However, it is an impressive accomplishment to launch a business remotely and develop it far enough to be sold to an S&P 500 company in three years. Most of Fabric's Twitter followers – no doubt interested in wealth technology – are young women. Spruce Point believes that MSCI should disclose the terms of this acquisition and Fabric's number of paying customers.

Impressive Accomplishment

Questionable Twitter Following



Source: Fabric launch PR, and Twitter

Spruce Point Capital Management

Dealings With Royalty Pharma

MSCI pays fees to Royalty Pharma plc (NYSE: RPRX) for advice on science-based thematic ETFs while Morgan Stanley is a top shareholder of RPRX, CEO Fernandez is on RPRX's Board, and Fernandez's son is employed at RPRX. Morgan Stanley was also a lead underwriter in Royalty Pharma's IPO. These factors add to our concern about nepotism-like dealing between MSCI and Morgan Stanley related entities.

Royalty Pharma's Biggest Shareholders

Name of Beneficial Owner	Class A Ordinary Shares Beneficially Owned	
	Number	Percent
5% Equity Holders		
Continuing US Investors Partnership	—	—
Continuing International Investors Partnership	—	—
General Atlantic[3]	1,500,871	*
GISEV Trustees Limited [4]	43,651,170	9.74%
EPA Holdings[5]	—	*
Morgan Stanley[6]	43,775,398	9.77%
FMR LLC[7]	44,110,365	9.84%
The Vanguard Group[8]	35,627,791	7.95%

Royalty Pharma's Prospectus

UNDERWRITING

We are offering the Class A ordinary shares described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC, BofA Securities, Inc., Goldman Sachs & Co. LLC, Citigroup Global Markets Inc. and UBS Securities LLC are acting as representatives of the underwriters.

We and the selling shareholders have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, we and the selling shareholders have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of Class A ordinary shares listed next to its name in the following table:

Name	Number of Class A Ordinary Shares
J.P. Morgan Securities LLC	16,753,952
Morgan Stanley & Co. LLC	16,753,952
BofA Securities, Inc.	12,684,874
Goldman Sachs & Co. LLC	12,005,250
Citigroup Global Markets Inc.	9,966,377
UBS Securities LLC	3,079,807
Evercore Group L.L.C.	2,309,855
Cowen and Company, LLC	1,800,137
SunTrust Robinson Humphrey, Inc.	826,298
BBVA Securities Inc.	203,670
DNB Markets, Inc.	203,670
Scotia Capital (USA) Inc.	203,670
TD Securities (USA) LLC	203,670
Academy Securities, Inc.	85,811
AmeriVet Securities, Inc.	85,811
Blaylock Van, LLC	85,811
Cabrera Capital Markets LLC	85,811
R. Seelaus & Co., LLC	85,811
Samuel A. Ramirez & Company, Inc.	85,811
Siebert Williams Shank & Co., LLC	85,811
Tigress Financial Partners, LLC	85,811
Total	77,681,670

Sources: RPRX Proxy Statement, Prospectus, Henri Fernandez LinkedIn

Spruce Point Capital Management

Timing Of The Royalty Pharma / MSCI Alliance Is Suspicious

Spruce Point finds the timing of key events peculiar and raises red flags as to why MSCI and Royalty Pharma have this Strategic Alliance. According to MSCI's own literature, "Health and Healthcare" has attracted the smallest slice of AUM.

CEO/Chairman's Son Henri Fernandez Begins Working For Royalty Pharma in March 2021

Henri Fernandez
Biopharma Investments at Royalty Pharma | Co-Founder Shine Small Project

Experience

RP Investments
Royalty Pharma · Full-time
Mar 2021 - Present · 2 yrs 10 mos
New York, New York, United States

Founded in 1996, Royalty Pharma is the largest buyer of biopharmaceutical royalties and a leading funder of innovation across the biopharmaceutical industry, collaborating with innovators from academic institu ...see more

Skills: Biopharmaceuticals · Biotechnology

Royalty Pharma Appoints Henry Fernandez as Lead Independent Director

ROYALTY PHARMA

ROYALTY PHARMA APPOINTS HENRY A. FERNANDEZ AS LEAD INDEPENDENT DIRECTOR

NEW YORK, NY, March 30, 2021 – The Board of Directors of Royalty Pharma plc (Nasdaq: RPRX) today announced that the independent directors of the Board have unanimously appointed Henry A. Fernandez as Lead Independent Director. Mr. Fernandez is Chairman and Chief Executive Officer of MSCI Inc. Mr. Fernandez will continue to serve on the Audit Committee of Royalty Pharma plc.

Royalty Pharma Announces Strategic Alliance With MSCI

ROYALTY PHARMA ANNOUNCES STRATEGIC ALLIANCE WITH MSCI TO LAUNCH LIFE SCIENCES INDEXES

NEW YORK, NY, April 21, 2021 – Royalty Pharma plc (Nasdaq: RPRX) today announced a collaboration with MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, to expand MSCI's thematic index suite with the launch of new indexes that aim to capture long-term, cutting edge themes that will disrupt the life sciences, biotechnology and pharmaceutical industry groups.

MSCI Pays RPRX A Revenue Share

"Henry Fernandez, our lead independent director, is a director and Chairman of the Board of MSCI. In April 2021, we entered into a cooperation agreement with MSCI, pursuant to which we will assist MSCI in MSCI's construction of life sciences index products ***in exchange for a share of MSCI's revenues from those products****."*

Sources: Henri Fernandez LinkedIn, Royalty Pharma Appoints Henry Fernandez as Lead Independent Director, Royalty Pharma Strategic Alliance with MSCI, MSCI Licensed Thematic Indices

~$1 Billion Acquisition of Real Capital Analytics Already Looks Impaired

Spruce Point Believes MSCI's Acquisitions Are Expensive Blunders Plagued With Issues

$ in mm	Real Capital Analytics	The Burgiss Group
Date Acquired	Sept 2021	Jan 2020 / Oct 2023
Business / Segment	All Other – Private Assets	All Other – Private Assets
Deal Value / $ Invested	$948	$1,049.5 / $913
Sales / EBITDA / Margin	$70 / ~$19.6 / ~28%	$90 / ~$13.5 / ~15%
EV / Sales (1)	13.5x	10.0x
EV / EBITDA (1)	48.4x	67.6x
Shady and/or Aggressive Accounting and Reporting	• **Claimed customer relationships of 20 years for accounting purposes despite firm history only 21 years. How can MSCI confidently believe that newer customers will have the same retention as initial customers?** • **Deal presentation said, "*Revenue base is almost entirely recurring subscriptions with attractive retention rates*"** • **SEC filings disclosed that, "*A portion of RCA's client agreements do not have automatic renewal clauses at the end of the subscription period. Due to the historically high retention rate and expectation that a substantial portion of the client agreements will be renewed, the associated revenue is recorded as recurring subscription revenue*"** • **Initially claimed 2,000 clients, only to footnote in the 10-K months later 1,600 clients** • **Stopped reporting Run-Rate revenue before 1-year anniversary; Revenue growth decelerated 1-year later**	• **Disclosed results would be reported on a three-month lag** • **Capitalized acquisition costs whereas acquisition costs are generally expensed** • **Did not disclose specific cost allocations to the business and what the impact on other segment margins would be** • **Declining book equity and previous disclosure of immaterial distributions suggest that the business was breakeven to losing money. Notably, the book equity declined more sharply in H1'23 vs. H1'22**
Suspect Acquisition Rationale and/or Incremental Bear Case	• Critical audit maters raised about customer life assumption and proprietary data intangible assets • Proliferation of competition, loss of product edge. No longer claims to be the only global CRE database • MSCI's Treasurer and Head of IR resigned a few months after the deal was announced	• CFO Huber appointed April 2019, resigned Sept 2020 which overlapped with the initial investment • In 2020, said the deal would accelerate private asset footprint, but long-term mid/high teens revenue growth goals are falling below plan while client retention is declining • Company has a 30-year history and sits in the "middle space" of its market, so questionable how it will break into the more competitive front of market and get more client penetration • 50% client overlap already with MSCI; limited/no client growth • Competes with eFront (owned by BlackRock their biggest customer) • Dilutive acquisition in Oct 2023

Source: MSCI and Spruce Point analysis. (1) Does not include any estimated tax benefits from Burgiss

Evidence of RCA's Client Loss

MSCI's acquisition of Real Capital Analytics in 2021 for $949 million was richly valued at approximately 13x and 48x run-rate revenue and EBITDA.(1) We believe the acquisition was littered with challenges and shows MSCI's propensity for aggressive revenue accounting. MSCI quickly marked down total RCA clients from 2,000 to 1,600 but claimed that it had a high retention rate and that revenue should be considered recurring.

MSCI Is Losing Real Capital Analytics Clients	
RCA Deal Call **Aug 2, 2021**	*RCA expands and in some cases unlock several attractive client segments for MSCI. These segments include asset managers and asset owners where MSCI is well established on an enterprise level. They also include real estate brokers, agents, originators, lenders, and government advisors providing MSCI excellent entry points to cross-sell our offerings from across MSCI. **RCA's 2,000 clients will be a tremendous addition to MSCI real estate's 900 clients**."*
First Disclosure **10-Q** **Oct 6, 2021**	*"**A portion of RCA's client agreements do not have automatic renewal clauses at the end of the subscription period. Due to the historically high retention rate and expectation that a substantial portion of the client agreements will be renewed, the associated revenue is recorded as recurring subscription revenue**."*
MSCI 10-K **Filed Feb 11, 2022**	*1. Represents the aggregate of all related clients under their respective parent entity. As of December 31, 2021, **we served over 1,600 clients which were related to RCA** (as defined below).*

Source: MSCI Conference Calls, Q3'21 10-Q and 2021 10-K

1) Based on deal press release which reported $70m of run-rate revenue and "high 20s" EBITDA margin

RCA's Growth Appears To Be Missing Its Target

MSCI and analysts talked up RCA's mid-to-high teens revenue growth and high and improving renewal rates. However, within a year after the acquisition, the evidence points to substantially lower revenue growth and MSCI stopped reporting RCA's Run-Rate revenue.

RCA Revenue Growth

	2021				2022			
$ in mm	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
RCA Run-Rate Revenue	--	--	$70.0	$76.0	$78.0	$79.2	Not Disclosed	Not Disclosed
Revenue Contribution	--	--	$17.4[1]	$18.7	$19.2	$19.3	$21.3	$19.9
% QoQ Growth	--	--	-	*7.6%*	*2.7%*	*0.5%*	*10.4%*	*-6.6%*
% YoY Growth	--	--	--	--	--	--	*22.6%*	*6.4%*

Source: MSCI SEC filings and investor presentations.
1) Estimated quarterly revenue grossed-up based on $3.4m of disclosed RCA revenue from 9/13/21 – 9/30/21 or ~20% of the quarter

Barclays Capital Aug 2, 2021	*"The pros of acquiring RCA are exemplified by its revenue primarily being subscription based, with 90%+ renewal rates (and improving).* ***Additionally, we believe its mid-to-high teens revenue growth has accelerated over the last two years - despite the pandemic and challenges facing the CRE industry****"*
RCA Deal Call Aug 2, 2021	*"****We have a strong conviction in our ability to create incremental value from this combination and are raising our long-term target for real state revenue growth to the high-teens from the mid-teens percentage range****."*

Source: Barclays Report: "*RCA is a smart (albeit expensive) strategic deal*"

RCA's Accounting Valuation Assumptions Appear Wildly Aggressive

Spruce Point finds a pattern of MSCI's management making aggressive, if not unrealistic assumptions, which flatter EPS. For example, MSCI assumed that RCA's customer relationships were 20 years. Given that the firm was founded in 2000 and acquired by MSCI in 2021, there would be only one or two annual customer cohorts for MSCI to form a basis to assert that 20 years is justified. MSCI subsequently revised RCA's client count from 2,000 to 1,600 in the months following the deal announcement and a former MSCI executive described significant challenges with the acquisition. Our concerns are supported by MSCI's auditor raising the valuation of customer relationships as a "Critical Audit Matter". Furthermore, CoStar Group, a leading competitor, amortizes its customer relationships over 3 to 13 years and not 20 years.

RCA Deal Valuation

	Estimated Useful Life	Fair Value (in thousands)
Accounts receivable		$ 9,645
Other current assets		3,721
Property, equipment and leasehold improvements, net		1,205
Right of use assets		6,441
Other non-current assets		3,270
Deferred revenue		(35,194)
Other current liabilities		(14,518)
Long-term operating lease liabilities		(4,849)
Deferred tax liabilities		(85,196)
Intangible assets:		
Proprietary data	11 Years	185,500
Customer relationships	20 Years	175,700
Acquired technology and software	9 Years	31,500
Trademarks	2 Years	890
Goodwill		670,874
Purchase price, net of cash acquired		$ 948,989

2021 Critical Audit Matter Cites Customer Relationships

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Acquisition of Real Capital Analytics, Inc. - Valuation of Customer Relationships and Proprietary Data Intangible Assets

As described in Note 5 to the consolidated financial statements, the Company completed the acquisition of Real Capital Analytics, Inc. for an aggregate cash purchase price of $949 million in 2021, which resulted in $394 million of acquired intangible assets, including customer relationships of $176 million and proprietary data of $186 million, being recorded. The fair values of acquired intangible assets were determined using the relief from royalty method, the replacement cost method and multi-period excess earnings method. The significant assumptions used to estimate the fair value of the acquired intangible assets included, forecasted cash flows which were determined based on certain assumptions which included, among others, projected future revenues, and expected market royalty rate, technology obsolescence rates, and discount rates.

CoStar Group Disclosure

*"Acquired intangible assets characterized as customer base assets consist of acquired customer contracts and the related customer relationships and **are amortized over periods ranging from 3 years to 13 years**. Acquired customer bases are amortized on an accelerated or straight-line basis depending on the expected economic benefit of the intangible asset."*

Source: MSCI 10-K and Crunchbase for RCA founding date, CoStar 10-K.

Pro Forma Adjusted GAAP Earnings

Spruce Point does not believe that MSCI's 20-year customer life assumption for Real Capital Analytics customers is credible or supported by recent client losses or industry peer assumptions. Based on a more realistic 7-year assumption, we estimate GAAP earnings would be reduced by approximately 1.5%.

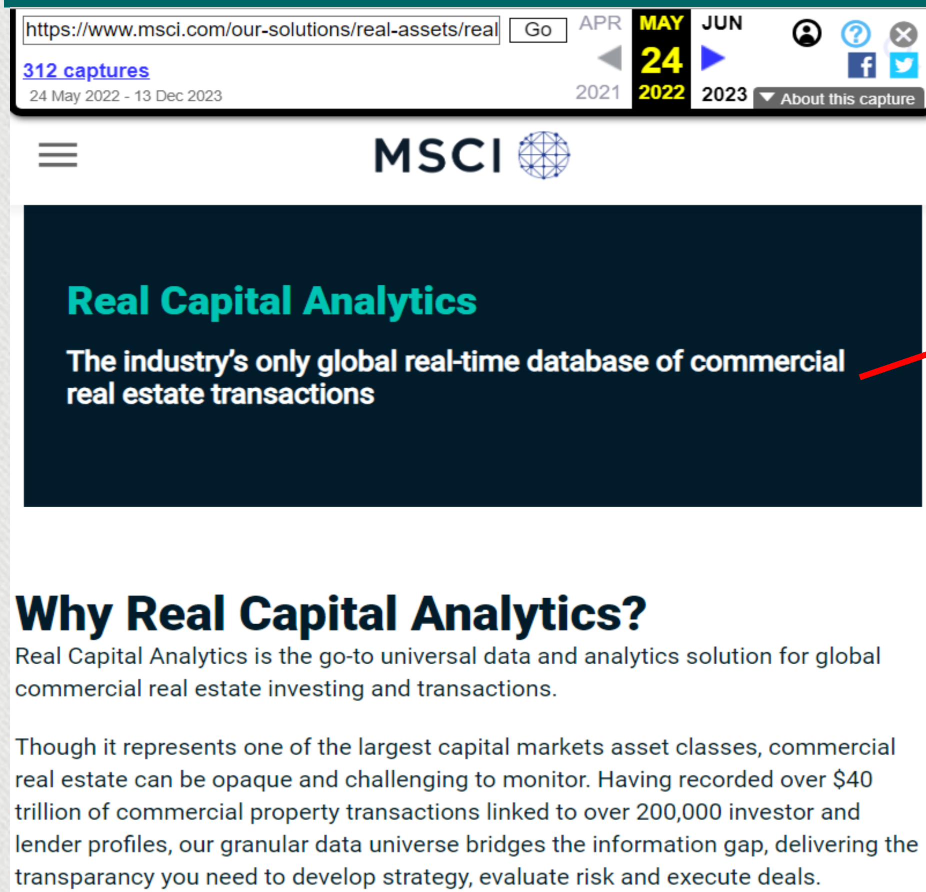
MSCI Adj. GAAP Net Income Under More Conservative Customer Relationship Life Assumption			
$ in mm	**2021[1]**	**2022**	**YTD 9M 2023**
MSCI GAAP Net Income (A)	$726.0	$870.6	$745.3
Amortization Expense @ 20 Years (B)	$2.6	$8.8	$6.6
Amortization Expense @ 7 Years (C)	$7.5	$25.1	$18.8
Incremental Amortization Expense D=(C-B)	$4.9	$16.3	$12.2
After-Tax Amortization Expense (E)	$4.1	$13.0	$10.1
Adj. MSCI GAAP Net Income (A-E) *% below reported*	$721.9 *-0.6%*	$857.5 *-1.5%*	$735.2 *-1.4%*

Source: MSCI SEC filings disclose $175.8 million of RCA customer relationship assets
1) RCA closed Sept 13, 2021 and year captures 30% of annual expense

MSCI Made A Key Retraction Of A Claim On RCA's Website

MSCI already appears to have made a key retraction of a claim on its website referencing RCA as the industry's only global real-time database of commercial real estate transactions.

RCA Website: March 2022 – April 2023


https://www.msci.com/our-solutions/real-assets/real Go
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24
2021 2022 2023
312 captures
24 May 2022 - 13 Dec 2023
About this capture

MSCI

Real Capital Analytics

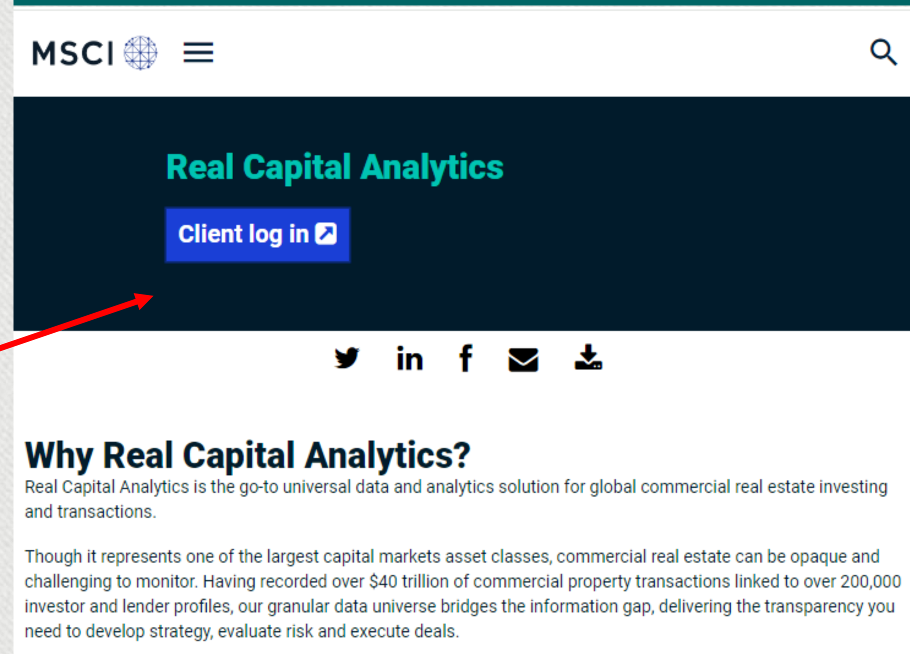
The industry's only global real-time database of commercial real estate transactions

Why Real Capital Analytics?

Real Capital Analytics is the go-to universal data and analytics solution for global commercial real estate investing and transactions.

Though it represents one of the largest capital markets asset classes, commercial real estate can be opaque and challenging to monitor. Having recorded over $40 trillion of commercial property transactions linked to over 200,000 investor and lender profiles, our granular data universe bridges the information gap, delivering the transparency you need to develop strategy, evaluate risk and execute deals.

RCA Website - Today


MSCI

Real Capital Analytics

Client log in

Why Real Capital Analytics?

Real Capital Analytics is the go-to universal data and analytics solution for global commercial real estate investing and transactions.

Though it represents one of the largest capital markets asset classes, commercial real estate can be opaque and challenging to monitor. Having recorded over $40 trillion of commercial property transactions linked to over 200,000 investor and lender profiles, our granular data universe bridges the information gap, delivering the transparency you need to develop strategy, evaluate risk and execute deals.

Source: Wayback Machines (March 22 - April 23) and current website

Competitive Landscape In Real Estate Analytics Is Intense

We believe MSCI operates in an increasingly crowded space for CRE analytics and data against pure-play and integrated analytics providers, along with real estate brokers offering enhanced services.

Commercial Real Estate Analytics Landscape

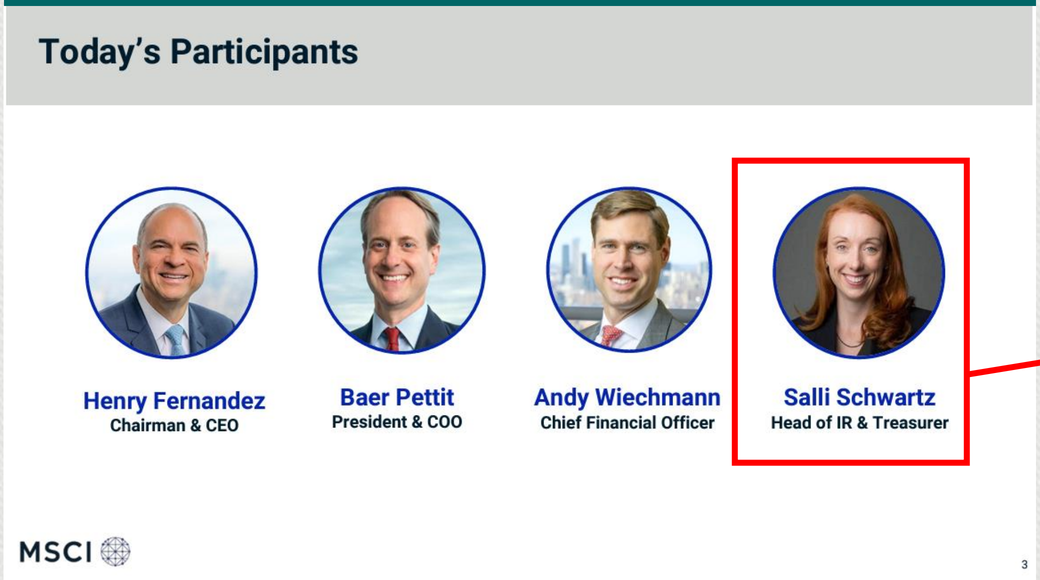
Company	Public/Pvt	Description
Moody's Analytics CRE	MCO	Provides innovative commercial real estate solutions for investors, lenders, and brokers.
S&P Market Intelligence	SPGI	Drill down to the property-level for demographics, occupancy rates, and mapping with 1,000+ real estate companies in 45+ countries. Discover essential intelligence for REITs and real estate analytics.
Factset (added Feb 2023)	FDS	Gain deep insights into all property transactions for U.S. public REITs to identify trends across deal metrics.
VTS	Private	Platform to unify owners, operators, brokers, tenants in CRE to capitalize on opportunities.
RealPage Analytics	PE-backed	Has market analytics, benchmarking, business intelligence and other solutions.
CompsStak One	Private	One platform for reliable and accurate commercial real estate data.
CoreLogic	PE-backed	Unlocks value for the entire property ecosystem by empowering agents, lenders, carriers, and innovators with integrated solutions that optimize and elevate how they serve their end-customers.
Northspyre	Private	Predictive analytics in CRE.
Altus Group	AIF CN	Leading-edge technology, advanced analytics and deep industry expertise.
CoStar	CSGP	Comprehensive platform for commercial real estate information, analytics and news.
Property Shark	Private	Comprehensive property data.
Cushman Wakefield	CWK	Brokers with CRE insights and AI technology adoption.
Newmark	NMRK	World leader in commercial real estate, seamlessly powering every phase of the property life cycle.
CBRE	CBRE	Global leader in commercial real estate services and investments. With services, insights and data that span every dimension of the industry.
Marcus & Millichap Research	MMI	Has a market insights and research business.

Source: Spruce Point research

MSCI's Head of IR & Treasurer Left Shortly After The Deal

MSCI investors should be alarmed that its Head of IR and Treasurer departed a couple months after the RCA acquisition was announced in August 2021. Her LinkedIn biography indicates she departed in November 2021.

RCA Deal Presentation: August 2, 2021



RCA Deal Presentation

Salli Schwartz (She/Her)
Head of Investor Relations for Illumina, Inc.

Head of Investor Relations and Treasurer
MSCI Inc.
Sep 2019 - Nov 2021 · 2 yrs 3 mos
New York, NY

Moody's Corporation
8 yrs 8 mos
New York, NY

Global Head of Strategic Capital Management & Treasurer
Nov 2018 - Sep 2019 · 11 mos

Source: RCA Deal Presentation and LinkedIn

Spruce Point Research Interview

Spruce Point interviewed a former frontline sales and business development executive familiar with MSCI's Private Assets, ESG and Climate analytics businesses for insights into the business.

Spruce Point Research Interview	
Question	*On the topic of the Real Capital Analytics acquisition ("RCA")*
Answer	*"There were only 4 reps in capital asset sales before the RCA deal. The staff went to like 30 post closing. RCA was strong at the time, but we started to see as time went on the market took a turn, a large amount of cancellations started to occur. CoStar is the main product they are competing with. They are more dominant. RCA has flexibility for pricing, but most go to CoStar because it is the flagship product. To make sure at times clients didn't go to CoStar we did discount or had to do multiyear agreements. **The RCA deal was not the best or easiest transition. It was pretty disorganized. It was like a dumpster fire. There were a lot of mismanaged accounts. I don't think they did enough due diligence, like on their run rate, and what they are producing. There were a lot of outdated or accounts that weren't updated. They were getting billed but were not an active client. Like one client said they cancelled a year and a half ago but were still getting billed. From my perspective, a lot of the RCA people left because it wasn't what they expected and they were getting paid better under the private vs. public company structure**."*
Question	*On the topic of MSCI's ESG business*
Answer	*"**ESG competition is definitely increasing, especially Bloomberg**. MSCI was one of the first but that doesn't mean competitors aren't going to eat away at it. As early as 2023, people were leaving the ESG team. To grow, you have to have consistent sales. They were under target and didn't hit their goals. That business line was struggling."*
Question	*On the topic of MSCI ONE*
Answer	*"From what I understand, it's having one big platform to get all their information, that's kind of why they acquired Burgiss, bringing that into the MSCI ONE would be the next step. But that is a hard thing to do because there is a lot of information – on the real asset side alone. **I know for a fact that is going to be a long thing to do because you can't just turn on a platform and integrate the tech behind it. I just don't think the infrastructure is there to take that on. They were still working on the Salesforce migration from RCA, something as simple as that wasn't simple for MSCI**."*
Question	*Any insights on the structure of MSCI?*
Answer	*"**MSCI is very siloed and there wasn't much overlap**. There weren't many times the private assets group would interact with other teams. It was difficult to bring in new information into a risk metrics process because – even though the data exists – the products weren't talking to each other. There wasn't much connectivity within the products."*

Source: Spruce Point Research Interview

Spruce Point Research Interview (Cont'd)

Spruce Point interviewed a former frontline sales and business development executive familiar with MSCI's Private Assets, ESG and Climate analytics businesses for insights into the business.

Spruce Point Research Interview	
Question	*On the outlook for MSCI*
Answer	*"**I would definitely say I am neutral to a little negative**. I worked for a competitor that started acquiring companies and I can see MSCI going down that path. They are going to slow on organic growth and make growth artificial by acquiring typically private companies that are good, but where integration behind it is lacking and down the line is going to cause issues. But for right now, they are a strong company and do have a grip in the ESG and Climate, but from my perspective seeing the competitive products coming, it will be challenge keeping those projections up. Especially from the RCA side, when I was there the product was already struggling."*

Source: Spruce Point Research Interview

We Think MSCI Wildly Overpaid For RCA

Based on recent precedent M&A transactions for property software and analytics companies and clear evidence of challenges with the transaction, we believe MSCI wildly overpaid for RCA at approximately ~13x and 48x revenue and EBITDA.

Precedent M&A Transactions In Property Analytics

$ in mm Target / Acquiror	Date Completed	Target Description	Deal Value	Est. NTM Sales (% growth)	Est. NTM EBITDA (% margin)	EV / NTM Sales	EV / NTM EBITDA
Reis (REIS) / Moody's	10/16/2018	Real estate information services	$254	$50.7 *15.4%*	$14.1 27.8%	5.0x	18.0x
RealPage (RP) / Thoma Bravo	4/22/2021	Technology platform for real estate owners and managers. Clients use it for transparency and asset performance	$10,200	$1,300.5 12.3%	$378.0 29.1%	7.8x	27.0x
CoreLogic (CLGX) / Stone Point Capital & Insight Partners	6/4/2021	Global property information and analytics provider	$7,609	$2,102.0 5.6%	$736.0 35.0%	3.6x	10.3x
Real Capital Analytics / MSCI	9/13/2021	Real estate data and analytics provider	$948.7	$70.0 "double-digits"	*"High 20s percentage"*	13.5x	48.4x

Source: Deal press releases, proxy statements, and Spruce Point estimates

SPRUCE POINT
CAPITAL MANAGEMENT

Change of Goodwill Impairment Testing A Major Red Flag

Over $670 million of goodwill was generated from the RCA transaction. Spruce Point observes that MSCI recently changed its goodwill testing discussion to first insert a qualitative test before a quantitative approach. It struck out language referencing that the fair value *"substantially exceeded"* the carrying values.

Goodwill Discussion Track Changes: 2021 vs. 2022

Goodwill

Goodwill is recorded as a result of business combinations undertaken by the Company when the purchase price exceeds the fair value of the net tangible assets and separately identifiable intangible assets acquired. ~~The Company tests~~We test goodwill for impairment on an annual basis on July 1st and on an interim basis when certain events and circumstances exist. The test for impairment is performed at the reporting unit level. ~~In~~When testing goodwill for impairment, ~~the company used~~we first assess qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test; however, on a periodic basis, we may elect to bypass the qualitative assessment and proceed directly to the quantitative test. When performing the quantitative test for impairment, we use the income approach to estimate the fair value of each reporting unit. Under the income approach, we estimate the fair value of each reporting unit based on the present value of estimated future cash flows. Estimating discounted future cash flows requires significant management judgment including in estimating forecasted future cash flows and determining both discount rates and terminal growth rates. Forecasted future cash flows are estimated based on a combination of historical experience and assumptions regarding the future growth and profitability of each reporting unit. Discount rates are selected based on discount rates of similar public companies to the reporting unit being valued and terminal growth rates are selected based on consideration of growth rates used during the reporting unit's forecast period in combination with economic conditions. These assumptions require management's judgment and changes to these estimates or assumptions could materially affect the determination of the reporting unit's fair value. Any impairment is measured as the difference between the carrying amount and its fair value. Based on our ~~quantitative assessment as of July 1, 2021, we determined that the estimated~~ qualitative assessment for 2022, we determined that it was not more likely than not that the fair value of the ~~Company's~~company's reporting units ~~substantially exceeded~~is less than their respective carrying ~~values, so~~values and no ~~impairment of goodwill was~~impairments were recorded.

<u>Warning:</u> Removed the word *"Substantially Exceeded"*

"Not more likely than not"
Is this good English or confusing?

Source: 2021 vs. 2022 10-K

Recent ~$1 Billion Acquisition of The Burgiss Group Also Looks Troubled And Increases Competitive Risks With BlackRock, MSCI's Largest Client

Summary of Burgiss Group Acquisition Concerns

	X	Potentially Puts MSCI In Greater Conflict With BlackRock, Its Largest Customer
	X	Burgiss Appears To Have Experienced Limited Client Growth
	X	Burgiss Appears To Be At Best Breakeven, At Worst Losing Money Despite “Mid-Teens” EBITDA margins
	X	Burgiss Appears To Have Financial Control Weaknesses, As Evidenced By Delayed Financial Recognition By MSCI
	X	The Transaction Is Wildly Expensive And Dilutive
	X	The Space Is Already Competitive
	X	Did A Former MSCI Executive Get A Sweet Deal / Financial Windfall From The Acquisition?

Burgiss Appears To Be At Best Breakeven, At Worst Losing Money

MSCI first acquired 40% of Burgiss in Q1 2020.[1] Spruce Point observes that MSCI avoids an explicit discussion of the true profitability of Burgiss, but rather focuses on its mid-teens EBITDA margin. The historical book equity accounts have shown a decline in value over time. MSCI has not reported any cash distributions from the investment that would reduce book value. MSCI also casually discloses the deal to be dilutive on its investor call but not in the press release.

Burgiss Deal Call Aug 2023

"For this year 2023, Burgiss is projecting slightly above $90 million of forecasted revenue with a mid-teens standalone EBITDA margin. Together with the benefits we bring to the business, we're projecting 20% top-line growth in the near term and gradually expanding margins. ***I would point out that we do expect this to be dilutive for the next 12 months****."*

Timeline of Burgiss Investments And Equity Book Value

	2020				2021				2022				2023			
$ in mm	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4[2]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Equity Book Value	$190.8	$190.9	$190.2	$190.9	$187.9	$187.5	$186.5	$218.8	$218.1	$216.6	$215.4	$214.4	$211.9	$210.5	$210.7	--
QoQ Change	--	*$0.0*	*($0.7)*	*$0.7*	*($3.0)*	*($0.4)*	*($0.9)*	*$32.3*	*($0.6)*	*($1.6)*	*($1.2)*	*($1.0)*	*($2.5)*	*($1.4)*	*$0.2*	--
Investment Amount	$190.8	--	--	--	--	--	--	$26.0	--	--	--	--	--	--	$696.8	--
% Acquired	40%	--	--	--	--	--	--	--	--	--	--	--	--	--	66.4%	--
Implied Value	$477.0	--	--	--	--	--	--	--	--	--	--	--	--	--	$1,049	--

Source: Q1 2020 10-Q and Q3 2023 10-Q
1) MSCI and Burgiss Alliance, Jan 21, 2020, press release 2) Burgiss and Caissa LLC Complete Merger, Oct 4, 2021, press release. It appears that MSCI was diluted in this transaction.

We Believe MSCI Is Outmatched By Deep Pocketed Players In Private Assets

While valuation data points for private asset analytics and technology companies are somewhat limited, there is ample evidence of increased M&A activity in the sector with large players like Nasdaq, JPMorgan, FactSet and S&P Global doing deals.

Precedent M&A Transactions In Private Asset Market Analytics Data and Analytics ($mm)

Target / Acquiror	Date Completed	Target Description	Deal Value	Est. Sales	EV / Est. Sales
Pitchbook / Morningstar	10/14/16	Leading data, software, and technology provider for professionals in venture capital, private equity.	$225	$31	7.2x
Preqin Solutions / Dynamo (Backed by Francisco Partners)	4/29/19	Cloud-based software for private equity portfolio monitoring, valuation, performance analysis, and ESG impact design and measurement.	--	--	--
eFront / BlackRock	5/10/19	End-to-end alternative investment management software and solutions provider serving 700+clients.	$1,300	$144	9.0x
Colmore / Preqin	8/11/21	Private markets technology, services and administration business that monitors 3,000 private funds and 40,000+ holdings.	--	--	--
Novus / SEI	11/12/21	Global portfolio intelligence platform for multi-asset classes including private markets	$72.5	--	--
Private Market Connection / S&P Global	8/29/22	Data solutions provider in private markets covering 15,000 funds and $1.2bn of private commitments.	$20	--	--
VC Experts Private Data / Nasdaq Private Market	1/18/23	Database includes, difficult to source information on ~15K of the world's most innovative private companies at various stages of growth.	--	--	--
Aumni / JPMorgan	3/22/23	Provider of investment analytics software to the venture capital industry having evaluated $600bn invested across 17,000 private companies.	--	--	--
Gottschalg Analytics / Long Term Assets Ltd.	7/19/23	Track record certification services for Private Market investments and provides insights into key attributes of returns, risk, and strategy based on proprietary and innovative benchmarking algorithms.	--	--	--
Betterfront / equation AG	10/27/23	Fundraising and data analytics company for Venture Capital and Private Equity fund managers.	--	--	--
Accelex Tech. / Factset	12/2/23	Provider of AI automation for private markets data acquisition, reporting and analytics. Represents $1.5tn of assets, 13,000 private funds across 4,000 mgrs.	$15 (Series A)	--	--
The Burgiss Group / MSCI	10/2/23	Provider of data, analytics, and technology solutions for investors in private assets cover 13,000 private funds.	$1,049	$90	10.0x

Spruce Point Observes Weaknesses In The Accounting For Burgiss

Spruce Point questions the accounting choices made in the Burgiss acquisition. Notably, the decision to apply a lag in reporting may reflect Burgiss' inability to produce timely financials. Furthermore, the decision to capitalize deal costs appear to put it in violation with GAAP which dictates that acquisition-related costs be expensed in the periods occurred. MSCI did not need to raise equity or debt to fund the $190.8 million investment.

Equity Method Disclosure

*"In January 2020, MSCI entered into a strategic relationship with Burgiss, a global provider of investment decision support tools for private capital. The Company acquired a 40% non-controlling interest for $190.8 million, **including capitalized costs**, which is accounted for as an equity method investment with the Company's share of Burgiss' earnings being recognized in "Other expense (income), net" in the Condensed Consolidated Statements of Income. **The Company is applying a policy election to recognize its share of Burgiss' earnings on a three-month lag. Accordingly, the Company has not recognized any earnings or amortization related to its investment in Burgiss in the three months ended March 31, 2020**. MSCI has also elected to apply the nature of the distribution approach to determine the classification of the distributions it receives from its equity method investees."*

Concern With Lagged Reporting

This policy election may reflect Burgiss' inability to produce timely financial statements which we believe reflects poorly on a financial company having been founded 30 years ago.

In addition, given declines in the book value of Burgiss, the lagged reporting may also be delaying losses through MSCI's financial statements.

GAAP Guidance On ASC 805-10-25-23

Capitalization of deal costs appears to be a violation of GAAP

*Acquisition-Related Costs: 25-23 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation, and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. **The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception**. The costs to issue debt or equity securities shall be recognized in accordance with other applicable GAAP.*

MSCI 2020 10-K and Spruce Point research and analysis

MSCI Increasingly Competing With Its Biggest Customer

Spruce Point believes that a major and growing risk is that as MSCI expands, it is encroaching into more direct competition with BlackRock, which is its biggest customer. For example, the acquisition of Burgiss puts MSCI in direct competition with eFront, a company owned and promoted by BlackRock. This fact was not discussed on the Burgiss conference call, but rather came to light three months later during an investor conference.

Competition Discussion

Competition

Index. Many industry participants compete with us by offering one or more indexes in similar categories. Such indexes vary widely in scope, including by geographic region, business sector and weighting methodology, and may be used by clients in a variety of ways in many different markets around the world. Among our Index competitors are S&P Dow Jones Indices LLC (a joint venture of S&P Global Inc. and CME Group Inc.); FTSE Russell, a subsidiary of the London Stock Exchange Group plc; and Solactive AG.

Competition also exists from industry participants, including asset managers and investment banks, that create their own indexes, often in cooperation with index providers, which may, among other things, provide some form of calculation agent service. Some asset managers also manage funds, including ETFs, based on their proprietary indexes, and some investment banks launch structured products or create over-the-counter derivatives based on their proprietary indexes. This is often referred to as self-indexing.

Analytics. Our Analytics offerings compete with those from a range of competitors, including Qontigo (formerly Axioma Inc.), BlackRock Solutions, Bloomberg Finance L.P. ("Bloomberg"), and FactSet Research Systems Inc. Additionally, some of the larger broker-dealers have developed proprietary analytics tools for their clients. Similarly, some of the large global investment organizations, such as custodians, have developed internal risk management and performance analytics tools that they offer to their clients.

ESG and Climate. Our ESG and Climate offerings compete with a growing number of companies that issue ESG data, ratings or research. For example, our ESG and Climate offerings compete with those from a range of competitors, including Sustainalytics Holding B.V. (a part of Morningstar, Inc.), Institutional Shareholder Services Inc. (majority owned by Deutsche Börse AG), Trucost (an S&P Global Inc. business), Refinitiv (a London Stock Exchange Group business), Bloomberg and Moody's Corporation.

All Other – Private Assets. We also have a variety of competitors for our offerings that provide data, market intelligence, indexes, and performance and risk attribution services relating to real estate and other private assets.

Source: MSCI 10-K

Question On Burgiss Competition In Nov 2023

Analyst Question	*"I want to focus on Burgiss if we can. Maybe could you provide us with a very quick overview of the Burgiss product offering? Maybe what attracted MSCI to purchasing the majority of the business? Where do you think you can take it near term, long term? And maybe what's the competitive landscape like in that area?"*
COO Response	*"Now in terms of the competitive environment, I still think this is a quite fragmented environment. There's clearly elements of what a number of -- there's a number of names that typically pop up. **eFront which is owned by BlackRock**, **Preqin, PitchBook**, others, but they're all -- and then there's a number of smaller firms that do different workflow. They're all in really quite different parts of the business providing quite different solutions. So I think we're still at a stage in the industry where we're definitely not at the sort of mature competitors going head to head."*

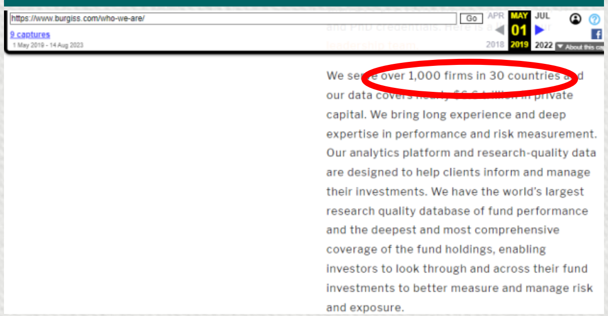
Source: Redburn Atlantic Conf, Nov 28, 2023

SPRUCE POINT CAPITAL MANAGEMENT

Evidence Suggests Burgiss Has Experienced Limited/No Client Growth

Using the Wayback Machine, we find troubles with key performance indicators reported by Burgiss. Burgiss consistently referenced serving over 1,000 clients since 2019. However, now MSCI says it has approximately 1,000 clients. This suggests that the Company's client count has been stagnant to potentially down over four years.

Client Count: 2019


https://www.burgiss.com/who-we-are/
9 captures
1 May 2019 - 14 Aug 2023
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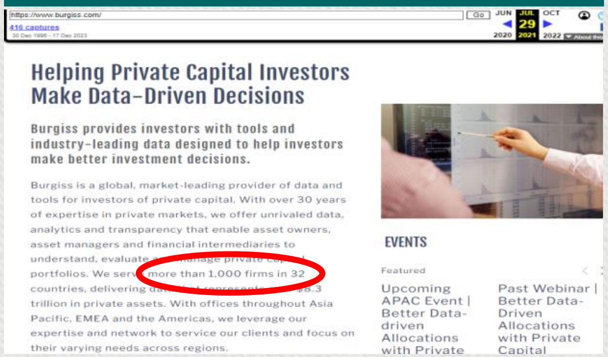
2018 2019 2022

We serve over 1,000 firms in 30 countries and our data covers nearly $6.6 trillion in private capital. We bring long experience and deep expertise in performance and risk measurement. Our analytics platform and research-quality data are designed to help clients inform and manage their investments. We have the world's largest research quality database of fund performance and the deepest and most comprehensive coverage of the fund holdings, enabling investors to look through and across their fund investments to better measure and manage risk and exposure.

Client Count: 2020

No disclosure

Client Count 2021


https://www.burgiss.com/
416 captures
30 Dec 1998 - 17 Dec 2023
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Helping Private Capital Investors Make Data-Driven Decisions

Burgiss provides investors with tools and industry-leading data designed to help investors make better investment decisions.

Burgiss is a global, market-leading provider of data and tools for investors of private capital. With over 30 years of expertise in private markets, we offer unrivaled data, analytics and transparency that enable asset owners, asset managers and financial intermediaries to understand, evaluate and manage private capital portfolios. We serve more than 1,000 firms in 32 countries, delivering data that represents over $8.3 trillion in private assets. With offices throughout Asia Pacific, EMEA and the Americas, we leverage our expertise and network to service our clients and focus on their varying needs across regions.

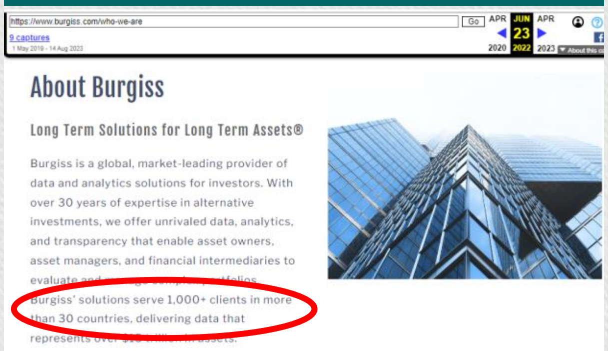
EVENTS

Featured

Upcoming APAC Event | Better Data-driven Allocations with Private

Past Webinar | Better Data-Driven Allocations with Private Capital

Client Count: 2022


https://www.burgiss.com/who-we-are
9 captures
1 May 2019 - 14 Aug 2023
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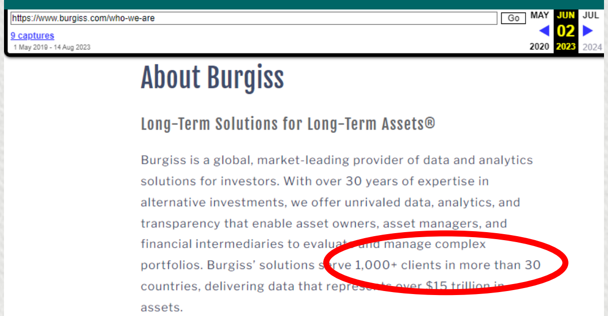
About Burgiss

Long Term Solutions for Long Term Assets®

Burgiss is a global, market-leading provider of data and analytics solutions for investors. With over 30 years of expertise in alternative investments, we offer unrivaled data, analytics, and transparency that enable asset owners, asset managers, and financial intermediaries to evaluate and manage complex portfolios. Burgiss' solutions serve 1,000+ clients in more than 30 countries, delivering data that represents over $15 trillion in assets.

Client Count: 2023


https://www.burgiss.com/who-we-are
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Client Count – MSCI call

"***Burgiss' roughly 1,000 clients*** *will be a tremendous addition to MSCI's extensive list of clients across endowments and foundations, pensions, insurance, family offices, and other private asset investors.*"

Sources: Client Count 2019, Client Count 2021, Client Count 2022, Client Count 2023 and MSCI Conference Call to Discuss Burgiss Acquisition

Competitive Landscape In Private Assets Is Fierce

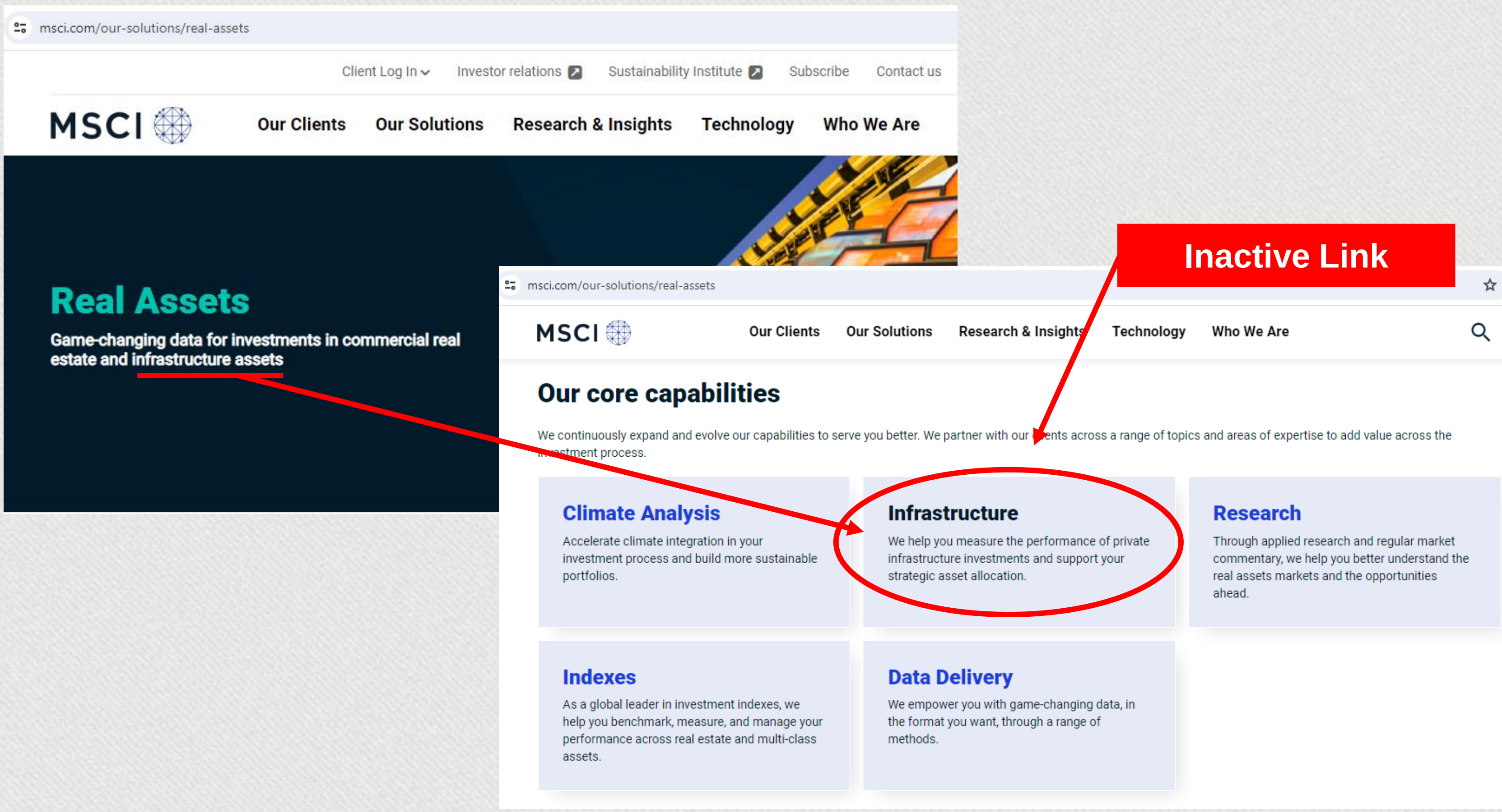
Spruce Point believes MSCI operates in an increasingly crowded space for Private Assets analytics and data against pure-play and integrated analytics providers.

Spruce Point Assessment Private Asset Analytics Landscape			
Company	Public/Pvt	Market Position (front/middle/back)	Description
eFront	BLK	All	eFront offers a robust product suite thoroughly covering all alternative investment asset classes, investor types, and needs.
FIS Digital Investment Analytics	FIS	Front	Automates data management processes and streamlines portfolio analysis to provide deal teams with the transparency they need to make investment decisions.
S&P Global Market Intelligence	SPGI	Middle/front	Combines insights, data, software, and tools.
Cobalt (acquired in 2021)	FDS	Middle/front	A leading portfolio monitoring solutions provider for the private capital industry.
DealCloud	Private	Middle/front	Data-powered platform delivers vertical-specific solutions that enable dealmakers and principal investing professionals to execute deals at the highest levels.
Preqin	Private	All	The Preqin group serves clients across the entire private market investment lifecycle - from fundraising to due diligence to deal execution and portfolio monitoring.
Eikon	LSEG	Middle/front	Eikon provides the comprehensive information on deal flow, analyzing private equity fund and venture capital performance, and other private equity metrics.
AlphaSense	Private	Front	Transaction data, funding data, investor information.
Pitchbook	MORN	Middle/front	PitchBook tracks every aspect of the global capital markets, from limited partners and commitments to general partners, companies and funds, providing a one-stop-shop for robust private market intel.
Bloomberg	Private	Middle/front	Bloomberg offers a fully-integrated solution for every stage of the Private Equity fund (PE fund) investment cycle.
Tracxn	Private	Middle/front	Provides numerous offerings including but not limited to sourcing, datasets, tracking, diligence, data solutions.

Source: Spruce Point research

What About Infrastructure Solutions?

MSCI's Real Assets segment seems to be in disarray. While its website prominently touts its game-changing data for infrastructure assets, it has no further information and an inactive link under core capabilities related to infrastructure.



Source: [MSCI website]

Revenue, Earnings Quality And Cash Flow Are Deteriorating With Clear Weaknesses In Accounting And Auditing Oversight

MSCI Recently Made Alarming Changes To Its "Compelling" Financial Model

Spruce Point believes that investors should pay close attention to MSCI's recent investor presentation and its glowing self-assessment of its "Robust and Compelling Financial Model". The Company recently modified its language about its attractive cash generation profile, while now emphasizing Adjusted EPS as a sign it is creating value for shareholders. We find these changes alarming in light of our observations that MSCI may be engaging in aggressive and problematic accounting and acquisitions of dubious value creation. Its recent financial update revealed increased expenses and no cash flow increase.

Investor Presentation: November 2022

Robust and Compelling Financial Model

Recurring, visible revenue model
~97% recurring revenues[1] as percent of total revenue from 2016 – 3Q2022

Operating efficiency strength
Disciplined operating expense management

Triple-Crown investment opportunities to grow business
Investing in multiple strategic product areas, client segments and capabilities, including technology and partnerships, to drive growth

Attractive cash generation profile
Our business is not highly capital intensive and, as such, we convert a high percentage of our profits into excess cash

Strong balance sheet and liquidity
Total cash and equivalents of $867M, approximately $600M is readily available, as of September 30, 2022

MSCI

[1]Recurring Revenues include recurring subscription and asset-based fees revenues.

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Investor Presentation: November 2023

Robust and Compelling Financial Model

Recurring, visible revenue model
~97% recurring revenues[1] as percent of total revenue from 2016 to YTD 2023

Operating efficiency strength
Disciplined operating expense management

Triple-Crown investment opportunities to grow business
Investing in multiple strategic product areas, client segments and capabilities, including technology and partnerships, to drive growth

Attractive cash generation profile
High free cash flow conversion and growth driven by favorable working capital dynamics, capital-light business model and track record of operating leverage

Creating value for shareholders
Double digit annual adjusted EPS growth every year since 2014 to 2022

Strong balance sheet and liquidity
Total cash and equivalents of $929M as of September 30, 2023 and $351M as of October 31, 2023

MSCI

(1) Recurring Revenues include recurring subscription and asset-based fees revenues for nine months ending September 30, 2023
(2) Free Cash Flow and Adjusted EPS are Non-GAAP measures, for details and reconciliations to the most comparable GAAP measures, see Appendix

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Investors should be wary when public companies pivot toward highlighting Adjusted EPS as a metric for evaluating its value creation, while modifying language about cash generation. MSCI says nothing about the effect on value creation from spending billions on acquisitions or share repurchases.

Source: MSCI Investor Relations and Presentations

Recent Guidance Update Is Concerning

MSCI's recent financial guidance update was underwhelming with expenses up and cash flow unchanged. Our biggest concern is that MSCI is suggesting it will borrow on its revolver for additional liquidity. Based on a current borrowing rate of 5.4% we estimate it will draw ~$100 million.

Updated Guidance From Q3 2023 Earnings

Full-Year 2023 Guidance

Full-Year 2023 Guidance Item	Previous Guidance	Current Guidance
Operating Expense	$1,090 to $1,130 million	$1,135 to $1,165 million
Adjusted EBITDA Expense	$965 to $995 million	$1,000 to $1,020 million
Interest Expense[1] (including amortization of financing fees)	$185 to $187 million	$187 million
Depreciation & Amortization Expense	$125 to $135 million	$135 to $145 million
Effective Tax Rate	17.0% to 20.0%	16.5% to 18.0%
Capital Expenditures	$80 to $90 million	$85 to $95 million
Net Cash Provided by Operating Activities	$1,145 to $1,195 million	$1,145 to $1,195 million
Free Cash Flow	$1,060 to $1,120 million	$1,060 to $1,120 million

[1] A portion of our annual interest expense is from our variable rate Term Loan A facility, while the majority is from fixed rate senior unsecured notes. Changes to the secured overnight funding rate ("SOFR") can cause our annual interest expense on the Term Loan A facility to vary, and changes in our indebtedness levels would cause our interest expense to vary.

MSCI

MSCI's guidance for the year ending December 31, 2023 ("Full-Year 2023") is based on assumptions about a number of factors, in particular related to macroeconomic factors and the capital markets. These assumptions are subject to uncertainty, and actual results for the year could differ materially from our current guidance, including as a result of the uncertainties, risks and assumptions discussed in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of our Annual Report on Form 10-K, as updated in quarterly reports on Form 10-Q and current reports on Form 8-K filed or furnished with the SEC. See "Forward-Looking Statements" on slide 2.

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Burgiss contribution plus higher expenses

Borrowing on the revolver

Higher level of software capitalization and some elevated hardware purchases

No cash flow increase

Source: [Q3 2023 Presentations] and [Earnings Call]

We Believe A Collapsing Dividend Growth Rate Signals Slowing Cash Flow Growth

Spruce Point believes there is no better indicator of management's view on the growth and stability of cash flow potential than its dividend policy. We observe that after initiating a dividend in 2014, MSCI's annual dividend growth rate averaged 27.9%. The most recent increase of 10.4% marks a substantial deceleration and should put investors on red alert of challenges on the horizon.

MSCI's Dividend Growth History

$ per share	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-
Annualized Dividend	$0.72	$0.88	$1.12	$1.52	$2.32	$2.72	$3.12	$4.16	$5.00	$5.52
% growth	--	*22.2%*	*27.3%*	*35.7%*	*52.6%*	*17.2%*	*14.7%*	*33.3%*	*20.2%*	*10.4%*
		Average Annual Dividend Growth = 27.9%								**10.4%**

Source: MSCI Dividend History

Spruce Point Capital Management

Red Flag: Multiple Revisions To Definition of A Client

Spruce Point observes that MSCI has made multiple changes to its definition of a client. Oddly enough, a revision was made in the recent 2022 10-K, only to be switched back to an earlier version which defines a client, by referencing the word client. This strikes us as a manipulative and circular definition. Curiously, MSCI referenced using the "shipping address" for measuring clients and revenue reporting despite not having physical products to sell. We believe management should clarify its revenue and client reporting in more detail.

Definition of Client	
Feb 2021 – Oct 2022 & April – Oct 2023	*"Represents the aggregate of all **related clients** under their respective parent entity."*
Feb 2023, 10-K	*"For this purpose, affiliated companies under a common parent entity are aggregated and counted as a single client."*
Until October 2020	*"To calculate the number of clients, we use the **shipping address** of the ultimate customer utilizing the product which counts affiliates, user locations, or business units within a single organization as separate clients."*
Segment Discussion	*"Operating revenues by geography are primarily based on the **shipping address** of the ultimate customer utilizing the product."*

Defining "client" by referencing related clients is a poor definition

What is meant by shipping address? MSCI has no physical product to ship!

Source: MSCI SEC filings

Spruce Point Capital Management

How Can MSCI Not Focus On Margins?

Spruce Point views MSCI change of practices from providing margin targets to focusing on Adj. EPS as a major red flag.
We later illustrate why we believe MSCI's margins are highly susceptible to potential manipulation through cost allocations.

Recent Comments On MSCI's Margin Outlook	
2016 Investor / Analyst Call	**Analytics:** *"It is also our long-term target to move adjusted EBITDA margin into the range of 30% to 35%. Our clients increasingly rely on our products to meet the demands of an ever-increasing complex and fast-moving multi-asset class investment processes."* **All Other:** *"Our long-term target is to have adjusted EBITDA margins move from negative levels to the range of 15% to 20%. We anticipate that the respective contributions from each of the segments that I have just outlined will help us achieve our long-term goal of moving the entire company from upper single-digit revenue growth to the low double-digit level that we aspire to, and to do so profitably with EBITDA margins of approximately 15%."*
2018 Raymond James Conf	**Index:** *"So we have put out long-term margin targets for Index being 68% to 72% and for Analytics product segment being 30% to 35%."*
CFO Q2'2022	*"Yes. **Obviously, we don't give margin targets by segment**, but I would say that within ESG and Climate, our focus is really on driving top line growth, not margin expansion. And so we're not targeting for the margin to expand from current levels."*
CFO Q2'2023	*"**I would say I would not overly focus on the margins in any given segment in any period. And more generally, we are not focused heavily on segment margins or the company margin overall**. Our primary focus is on driving strong EPS growth. The margin is an input into that, and our pace of spend is an input into that. But overall, we're really focused on driving that attractive EPS growth over time."*

Source: Q2'22 and Q2'23 Conference Call,

Acquisitions Can Be Used To Shift Costs Away From Mature Segments

MSCI does not disclose the precise impact of acquisitions on segment margins. However, we believe the evidence shows that it has the latitude and ability to allocate costs from its more mature segments to faster growing ones. For the Real Capital Analytics acquisition, management was not precise about the effect. However, with the Burgiss deal it admitted that cost reallocations would benefit the Index, ESG & Climate and Analytics segments.

MSCI's Historical Disclosure On Cost Allocations From Acquisitions Have Never Been Fully Quantified	
Real Capital Analytics	**<u>Deal Call (Aug 2021):</u>** *"I would note that post-closing; we will be redistributing MSCI's corporate allocations across our segments, which may impact our segment margins."* **<u>Q3'2021 Earnings Call (Oct 2021):</u>** *"When combined with the existing Real Estate business, these investments, together with some employee retention expenses that are not excluded from adjusted EBITDA as well as the reallocation of certain internal costs of this segment, will result in annualized adjusted EBITDA margin for the All Other segment likely closer to the mid-teens next year."*
Burgiss Call **Aug 2023**	*"Beyond the next 12 months, we expect this to become accretive. From a reporting standpoint, Burgiss will be included within our all other private assets segment.* ***It is worth noting that, similar to past acquisitions, there will be some amount of MSCI shared expenses that will be allocated to the segment. <u>These allocations will reduce the margins for Burgiss, while slightly increasing the margins in other segments</u>.*** *It's important to underscore that there will be no net impact to firm-wide expenses from this, as these are purely reallocations."*

Source: MSCI Conference Calls

Strong Evidence of Revenue Quality Deteriorating

Spruce Point is incredibly alarmed to see that MSCI could be playing with revenue recognition within its Index segment. For example, in Q2'23 the Company reported a 160% increase in non-recurring revenue. The revenue is explained as one-time license fees related to prior periods. We cannot find any other previous disclosures of such events being recorded within the Index segment and why is revenue being recorded now for something related to a prior period? Index segment Adj. EBITDA margin, which struggled to expand, increased 170bps quarter-over-quarter.

Q2 2023

*"Operating revenues from non-recurring revenues increased 48.7% for the six months ended June 30, 2023, primarily driven by one-time license fees **related to prior periods**, as well as non-recurring licensed data products."*

MSCI Index Segment Reporting

$ in mm	2020	2021	2022	Q1'23	Q2'23	Q3'23
Recurring	$580.4	$650.6	$729.7	$196.7	$200.7	$206.5
Asset-Based	$399.8	$554.0	$528.1	$133.1	$138.2	$141.1
Non-Recurring	$36.3	$47.1	$45.4	$9.6	**$23.4**	$14.6
Total Index Revenue	**$1,016.5**	**$1,251.8**	**$1,303.2**	**$339.4**	**$362.3**	**$362.1**
YoY growth %						
Recurring	*9.3%*	*12.1%*	*12.2%*	*12.7%*	*11.7%*	*11.3%*
Asset-Based	*10.5%*	*38.6%*	*-4.7%*	*-8.2%*	*4.5%*	*12.3%*
Non-Recurring	*29.6%*	*29.8%*	*-3.8%*	*-14.5%*	***159.8%***	*31.7%*
Total Index Revenue	*10.4%*	*23.1%*	*4.1%*	*2.6%*	*12.9%*	*12.4%*
Index Adj. EBITDA	**$766.5**	**$951.3**	**985.4**	**$253.7**	**$277.1**	**$277.7**
% margin	*75.4%*	*76.0%*	*75.6%*	*74.7%*	*76.5%*	*76.7%*

Abnormally large "Non-Recurring" fees that suspiciously boosted index margins when they have struggled to increase

Source: MSCI financials and Spruce Point analysis

Expanded Discussion of Non-Recurring Revenue And Its Accounting

Spruce Point is concerned that MSCI has gone through greater lengths to qualify its discussion about non-recurring revenue. We observe that in February 2023, the discussion included one-time licensing fees. Five months later in July 2023 (Q2'23), MSCI disclosed a surge in non-recurring index revenue which it said related to "prior periods" and provided no further elaboration.

Discussion of Non-Recurring Revenue	
2020 10-K **Filed Feb 2021**	*"Non-recurring revenues primarily represent fees earned on products and services where we do not have renewal contracts and primarily include revenues for providing historical data, certain implementation services and other special client requests, which are generally recognized at a point in time."*
2021 10-K **Filed Feb 2022**	*"Non-recurring revenues primarily represent fees earned on products and services where we do not have renewal contracts. Non-recurring revenues primarily include revenues from licenses of historical data,* ***indexed derivative financial products****, certain implementation services and other special client requests, which are* ***generally recognized*** *at a point in time, but may also be recognized over the license period."*
2022 10-K **Filed Feb 2023**	*"Non-recurring revenues primarily represent fees earned on products and services where we* ***typically*** *do not have renewal* ***clauses within the contract****.* ***Examples of such products and services include one-time license fees****, certain derivative financial products, certain implementation services and historical data sets.* ***Based on the nature of the services provided, non-recurring revenues are generally billed either in advance or after delivery*** *and recognized point in time or over the service period."*

Source: MSCI 2020 – 2022 10K

Capitalized Expenses Increasing

Spruce Point observes that MSCI is capitalizing a greater amount of software development costs, which are conveniently added back to Adjusted EBITDA and passed-off as non-cash expenses. However, we do not believe that is a fair characterization because these are real cash costs that cannot simply be ignored, especially since MSCI has a history of failed software development projects.

MSCI's Capitalization And Amortization of Software Development

$ in mm	2021[1]	Q1	Q2	Q3	Q4	2022	Q1	Q2	Q3
Capitalized Dev. Cost	$39.3	$14.1	$15.6	$14.7	$14.9	$59.3	$15.3	$17.3	$17.4
% YoY growth	*35%*	*45%*	*69%*	*45%*	*46%*	*51%*	*9%*	*11%*	*18%*
Amortized Dev. Expense	$22.3	$5.8	$6.3	$7.6	$8.0	$27.7	$8.8	$10.3	$10.9
% YoY growth	*-2%*	*-13%*	*5%*	*68%*	*56%*	*24%*	*52%*	*63%*	*45%*
Adj EBITDA	**$1,196.8**	**$318.5**	**$331.1**	**$340.9**	**$339.0**	**$1,329.7**	**$344.7**	**$377.3**	**$386.3**
% Amortized Expense	*1.9%*	*1.8%*	*1.9%*	*2.2%*	*2.4%*	*2.1%*	*2.6%*	*2.7%*	*2.8%*

Higher % of Adj. EBITDA From Amortization of Development Costs

(1): MSCI wrote-off $16m of capitalized development costs in 2021 which lowered the expense.
Source: MSCI and Spruce Point analysis

Software Developed For Internal Use, But With External Implications?

MSCI discloses that it capitalizes "Internal Use" software. Yet, ironically in 2021 it wrote-off capitalized development that was related to external matters, notable sales of products in the Analytics segment. This disclosure strikes us as troubling because it suggests that MSCI actually capitalized software development costs that were not purely for internal use, but rather were tied to external client product sales.

Disclosures About Capitalized Software Development	
Discussion of Capitalized Software Costs	***The Company applies the provisions of ASC Subtopic 350-40, "Internal Use Software," and accounts for the cost of computer software developed for internal use by capitalizing qualifying costs, which are substantially incurred during the application development stage****. The amounts capitalized are included in Intangible Assets on the Consolidated Statement of Financial Condition and include external direct costs of services used in* ***developing internal-use software and payroll and payroll-related costs of employees directly associated with the development activities****. Additionally, costs incurred relating to upgrades and enhancements to the software are capitalized if it is determined that these upgrades or enhancements provide additional functionality to the software. Capitalized software development costs are typically amortized on a straight-line basis over the estimated useful life of the related product, which is typically three to five years, beginning with the date the software is placed into service.*
Write-off Discussion	***Following management's decision to discontinue development and cease related sales activities of certain Analytics segment products and transition existing customers to other product offerings, the Company wrote off $16.0 million of certain internally developed capitalized software*** *intangible assets (consisting of $46.3 million of gross intangible assets less $30.3 million of accumulated amortization) during the year ended December 31, 2021. The non-cash charge is recorded as a component of "Amortization of intangible assets" on the Consolidated Statement of Income*

Source: MSCI 10-K

Segment Reporting Can Be Easily Manipulated

Spruce Point believes that MSCI's segment reporting gives management wide latitude to manipulate margins to its benefit. We observe that it can allocate costs by segment using a variety of different methods, without incurring "arm's length" charges.
We believe this is relevant for its crown jewel Index and ESG and Climate business. MSCI sells ESG and Climate indices. Under its current disclosure guidance, the ESG related costs associated with these products could be kept artificially low to bolster the Index segment margins.

	Discussion of Cost Allocation
Segment Discussion	*"Operating revenues and expenses directly associated with each segment are included in determining its operating results.* ***Other expenses that are not directly attributable to a particular segment are based upon allocation methodologies, including time estimates, revenue, headcount, sales targets, data center consumption and other relevant usage measures. Due to the integrated structure of MSCI's business, certain costs incurred by one segment may benefit other segments. A segment may use the content and data produced by another segment without incurring an arm's-length intersegment charge****."*
Index Product Discussion	*"Our index product offerings include:* ***ESG and Climate Indexes****. ESG and Climate Indexes are constructed from an underlying index by applying data from our ESG and Climate segment to additional screening or other criteria."*
Analytics Product Discussion	*"BarraOne. Powered by our MAC Barra factor model, BarraOne provides clients with MAC risk and performance analytics. BarraOne allows clients to build equity, fixed income, and MAC portfolios with specific risk,* ***ESG and climate exposures****."*
Index Revenue Segment Discussion 2022	*"Revenues from recurring subscriptions increased 12.2% for the year ended December 31, 2022 compared to the year ended December 31, 2021, primarily driven by strong growth from both market cap-weighted and factor,* ***ESG and climate Index products****."*
Index Revenue Segment Discussion Q3'23	*"Operating revenues from recurring subscriptions increased 11.9% for the nine months ended September 30, 2023, primarily driven by strong growth from both market cap-weighted and factor,* ***ESG and climate Index products****."*

Source: MSCI SEC filings

Spruce Point Capital Management

How Does MSCI Account For Analyst And Researcher Costs Within ESG?

MSCI's SEC Form ADV 2A references that it has just 84 employees but through its foreign affiliates "leveraged" 600 ESG employees including ~250 analysts and researchers. How are these costs allocated to ESG?

MSCI Employees and Analyst Researchers	
March 10, 2021 SEC Form ADV 2A	MSCI ESG Research products and services are designed to provide in-depth research, ratings and analysis of environmental, social and governance related (ESG) business practices of companies worldwide. MSCI ESG Research LLC consists of approximately 60 employees, including approximately 25 ESG analysts and researchers.[1] MSCI ESG Research, through its predecessor companies, IRRC, KLD, ISS, Innovest and GMI Ratings, has been providing ESG research as far back as 1972.
March 24, 2022 SEC Form ADV 2A	MSCI ESG Research products and services are designed to provide in-depth research, ratings and analysis of environmental, social and governance related (ESG) business practices of companies worldwide. MSCI ESG Research LLC consists of approximately 84 employees, including approximately 29 ESG analysts and researchers.[1] MSCI ESG Research, through its predecessor companies, IRRC, KLD, ISS, Innovest and GMI Ratings, has been providing ESG research as far back as 1972.
March 10, 2023 SEC Form ADV 2A	MSCI ESG Research products and services are designed to provide in-depth research, ratings and analysis of environmental, social and governance related (ESG) business practices of companies worldwide. MSCI ESG Research LLC consists of approximately 84 employees, including approximately 29 ESG analysts and researchers.[1] MSCI ESG Research, through its predecessor companies, IRRC, KLD, ISS, Innovest and GMI Ratings, has been providing ESG research as far back as 1972.

(1) Through its foreign affiliates, MSCI ESG Research leverages a total of approximately 600 ESG employees including approximately 250 analysts and researchers.

Critical Audit Matter Change To Focus On Revenue Recognition

Spruce Point notes that MSCI Critical Audit Matter has recently shifted to focus on revenue recognition. In prior years, the focus was on Unrecognized Tax Benefits (2019, 2020) and The Valuation of Customer Relationships and Intangible Assets with the RCA acquisition (2021). MSCI also recently made a small tweak to its Accounts Receivable language by removing reference to unbilled revenue as a contract asset. MSCI does not disclose or quantify the amount of unbilled revenue in its accounts. We believe MSCI should provide this information since unbilled revenue is frequently manipulated by other public companies and can provide insights into potentially aggressive revenue recognition practices.

Critical Audit Matter: Revenue Recognition - Recurring Subscriptions, Asset-Based Fees, and Non-Recurring Revenues

"As described in Notes 1 and 3 to the consolidated financial statements, the Company recognized operating revenues of $2.1 billion for the year ended December 31, 2022, related to recurring subscriptions, asset-based fees, or non-recurring revenues from the Index, Analytics, and ESG and Climate segments. Recurring subscription revenues represent fees earned from clients primarily under renewable contracts or agreements and are generally paid annually in advance and recognized in most cases ratably over the term of the license or service pursuant to the contract terms. Asset-based fees are principally recognized based on the estimated assets under management (AUM) linked to the Company's indexes from independent third-party sources or the most recently reported information provided by the client. Asset-based fees also include revenues related to futures and options contracts linked to the Company's indexes, which are primarily based on trading volumes and fee levels. Asset-based fees are generally variable based upon AUM or the volume of trades or fee levels and are generally billed quarterly in arrears. Non-recurring revenues primarily represent fees earned on products and services where the Company typically does not have renewal clauses within the contract. Examples of such products and services include one-time license fees, certain derivative financial products, certain implementation services and historical data sets. Based on the nature of the services provided, non-recurring revenues are generally billed either in advance or after delivery and recognized point in time or over the service period. The principal considerations for our determination that performing procedures relating to revenue recognition for recurring subscriptions, asset-based fees, and non-recurring revenues is a critical audit matter are the significant audit effort in performing procedures and evaluating audit evidence related to management's assessment of revenue recognition."

Accounts Receivables and Allowance for Doubtful Accounts

2019-2021

*"The Company's clients generally pay subscription fees annually or quarterly in advance. MSCI's policy is to record to a receivable when a customer is billed. For products and services that are provided in advance of billing, such as for our asset-based fee products, unbilled revenue **(or a "contract asset")** is included in Accounts Receivable on the Company's Consolidated Statement of Financial Condition."*

Recently removed

2022

"The Company's clients generally pay subscription fees annually in advance. MSCI's policy is to record to a receivable when a client is billed. For products and services that are provided in advance of billing, such as for our asset-based fee products, unbilled revenue is included in Accounts Receivable on the Company's Consolidated Statement of Financial Condition."

Source: 2022 and 2021 10-K

Never A Good Sign To See A CFO Resign In Short Order For No Reason

Spruce Point observes that CFO Huber left after approximately 15 months on the job without providing a specific reason. Shortly thereafter in August 2021, she assumed the CFO role at FactSet, which is a major competitor to MSCI.(1)

Huber Appointment: April 2019

MSCI PRESS RELEASE

MSCI Appoints Linda S. Huber Chief Financial Officer

New York – April 29, 2019 – MSCI Inc. (NYSE: MSCI) (the "Company"), a leading provider of critical decision support tools and services for the global investment community, announced today that Linda S. Huber has been appointed Chief Financial Officer and Treasurer and will become a member of MSCI's Executive Committee, effective May 6, 2019.

"With a tenure of more than 30 years in the financial services industry and having served more than 13 years as a public company CFO, Linda brings a wealth of relevant financial, operational and strategic expertise to MSCI. Her business acumen and financial management experience will make her a valuable member of the leadership team as we continue to execute on the high-growth initiatives underlying MSCI's strategic objectives," said Henry A. Fernandez, the Company's Chairman and Chief Executive Officer.

"I look forward to joining the MSCI team and helping to build on its strong foundation," said Ms. Huber. "MSCI has a proven track record, and I am excited about the opportunity to contribute to its even greater success in the future."

Andrew C. Wiechmann, who has been serving as the Company's Interim Chief Financial Officer and Treasurer, will assume the newly-created position of Chief Strategy Officer, reporting directly to Mr. Fernandez. In this important role, he will be responsible for driving the Company's transformational strategy, overseeing M&A and partnership activities, and supporting the business on its most important strategic growth initiatives. He will also continue to serve as a member of MSCI's Executive Committee.

"I'd like to thank Andy for his leadership of our finance team during this interim period, which will enable us to make a seamless transition. Linda and I look forward to continuing to work with Andy in his new role," added Mr. Fernandez.

Ms. Huber previously served as the Executive Vice President and Chief Financial Officer of Moody's Corporation from May 2005 to June 2018 where she had executive responsibility for the company's global finance activities, information technology, communications and corporate services functions, as well as the Moody's Foundation. Prior to joining Moody's, she served in several increasingly senior roles in financial services, having served as Executive Vice President and Chief Financial Officer at U.S. Trust Company, a subsidiary of Charles Schwab & Company, Inc.; Managing Director at Freeman &

Huber Departure: Sept 2020

MSCI PRESS RELEASE

MSCI Appoints Andrew C. Wiechmann
Chief Financial Officer

NEW YORK, NY – September 25, 2020 – MSCI Inc. (NYSE: MSCI), a leading provider of critical decision support tools and services for the global investment community, announced today the appointment of Andrew C. Wiechmann as Chief Financial Officer ("CFO"), effective immediately. Linda S. Huber, who is stepping down from her role as CFO, will remain with the Company for a transition period to ensure a seamless transfer of her responsibilities to Mr. Wiechmann.

Ms. Huber stated, "I am extremely proud of the work we have done at MSCI in the past year and a half, during which the share price of the company has increased approximately 50 percent. Despite the global pandemic and economic challenges, the company has continued to grow and thrive. I am confident that this will continue as Andy steps into the CFO role."

Henry A. Fernandez, MSCI's Chairman and Chief Executive Officer, commented, "On behalf of MSCI, I would like to thank Linda for her leadership in driving shareholder value by achieving strong growth, tight expense control and excellent capital allocation, even during this difficult pandemic period. Her drive for 'triple crown' investments has been a big step forward for MSCI, and she is leaving the company operationally and financially stronger. She has greatly improved our finance and risk functions and will be missed. We wish her all the best in her future endeavours."

"Since joining MSCI's Executive Committee last March, Andy has become a respected leader and trusted advisor to the MSCI Board of Directors and the Executive Committee. As MSCI continues its global growth trajectory, Andy's extensive knowledge of our business, strategy and financial operations position him well to assume this role at this moment in our transformation. He has a deep understanding of the drivers of MSCI's business and has partnered with senior management to develop strategies that have delivered tremendous shareholder value. Having worked very closely with Linda, and given his expertise in finance and experience with the investment community and our shareholders, we anticipate a seamless transition," added Mr. Fernandez.

Amazing what $5 trillion of financial stimulus and $900M of share repurchases will do to the share price!

No specific reason for leaving was cited in the PR.

Source: 8-K appointment and 8-K departure

1) Huber FactSet appointment

Chief Accounting Officer Recently Resigned

In the context of our findings about unusual revenue reporting and margins, we are alarmed to see that MSCI's Chief Accounting Officer (CAO) resigned on August 18, 2023. Her predecessor was rotated to the Head of Business Finance where he led the finance function for all product lines and was responsible for P&L management. He resigned within one year after assuming this role. As of this report, MSCI has not named a successor to the CAO role.

Disclosures on Chief Accounting Officers

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On August 18, 2023, Jennifer H. Mak informed MSCI Inc. ("MSCI" or the "Company") of her intention to resign as Global Controller, Head of Finance Operations and principal accounting officer of the Company, to pursue another opportunity. Her resignation was not the result of any disagreement with the Company on any matter relating to the Company's financial statements, internal controls, operations, policies, or practices. Ms. Mak will remain with the Company through September 7, 2023 to help facilitate the transition of her responsibilities.

In connection with Ms. Mak's resignation, Andrew C. Wiechmann, the Company's Chief Financial Officer, will assume the responsibilities of principal accounting officer on an interim basis, effective August 24, 2023. Mr. Wiechmann's biographical information is set forth in the Company's Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission on February 10, 2023, and such information is incorporated herein by reference. No new compensatory arrangements will be entered into with Mr. Wiechmann in connection with his assuming the responsibilities as the Company's interim principal accounting officer.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On July 31, 2018, the Board of Directors of MSCI Inc. (the "Company") appointed Jennifer Mak, the Company's current Global Controller and Head of Finance Operations, to also serve as, and assume the duties of, its Principal Accounting Officer, effective August 13, 2018. Richard J. Napolitano, the Company's current Principal Accounting Officer, has been named Head of Business Finance for the Company.

Ms. Mak, age 44, joined the Company on July 9, 2018 and has served as the Company's Global Controller and Head of Finance Operations since that time. Previously, Ms. Mak served at Honeywell International Inc. ("Honeywell"), as Vice President and Controller from April 2016 to June 2018, and as Controller of the Performance Materials and Technologies segment from April 2014 to April 2016. She joined Honeywell in 2010 and served as Assistant Controller of Honeywell from 2011. Ms. Mak earned her Bachelor of Science degree in Accountancy from the University of Illinois at Urbana-Champaign, IL.

Former CAO left a year later. According to his bio, he was *"Finance leader for all products lines and major functional areas responsible for: P&L management, investment analysis, annual operating plan, multi-year strategy and operational issues."*

Source: Mak (LinkedIn) and Napolitano (LinkedIn)

Why Doesn't MSCI Have A Controller?

Spruce Point is concerned that MSCI is operating without a Global Controller in place that it says has, "*direct responsibility for the largest portion of the finance organization and firmwide accounting, financial reporting, financial and treasury operations*" among other things. A link on the Company's website indicates the position has been open since at least February 2023, which is even before we identified reporting issues and the Chief Accounting Officer departed.

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Global Controller
MSCI Inc.
New York, NY (Hybrid)
$400K/yr - $450K/yr
3 weeks ago

Global Controller
MSCI Inc. · New York, NY Reposted 3 weeks ago · 171 applicants
$400,000/yr - $450,000/yr · Hybrid · Full-time
1,001-5,000 employees · Financial Services
13 school alumni work here
Skills: Commercial Transactions, Interpersonal Skills, +8 more
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The position will have direct responsibility for the largest portion of the finance organization, including all aspects of firmwide accounting, financial reporting, financial and treasury operations, finance transformation and MP&A integration.

This individual must be a proactive manager, driving a team of senior direct reports across commercial controllership, corporate accounting, SEC reporting, technical policy, consolidations and systems, data analytics and reporting.

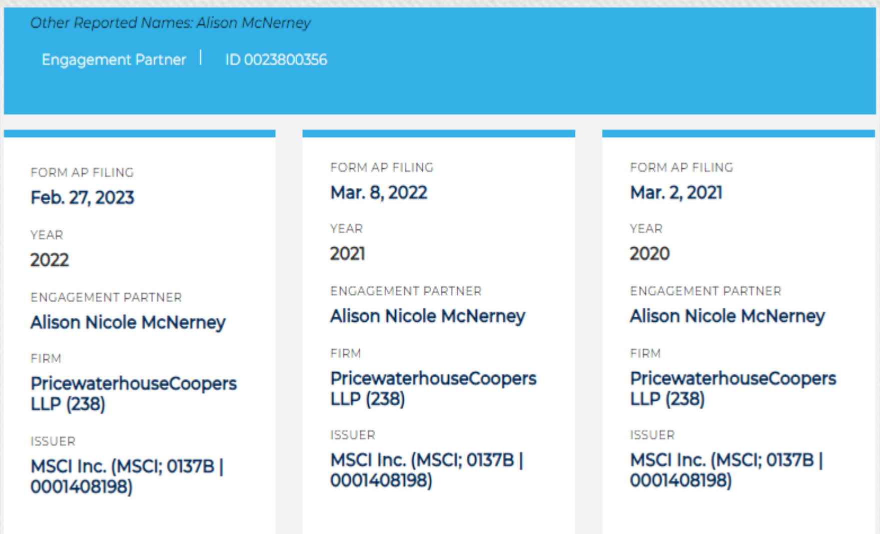
Source: LinkedIn and MSCI

MSCI's Audit Engagement Partner Is Not A Financial Services Industry Expert?

Spruce Point Capital Management

MSCI shareholders should demand that its books and records be audited by an Engagement Partner familiar with the financial services industry. For the past three years, its Engagement Partner has been an industrial products specialist whose other clients have included chemical companies such as Innophos Holdings (IPHS) and AvanSix (ASIX). In fact, the Engagement Partner specifically describes herself as the Industrial Products Assurance Partner.

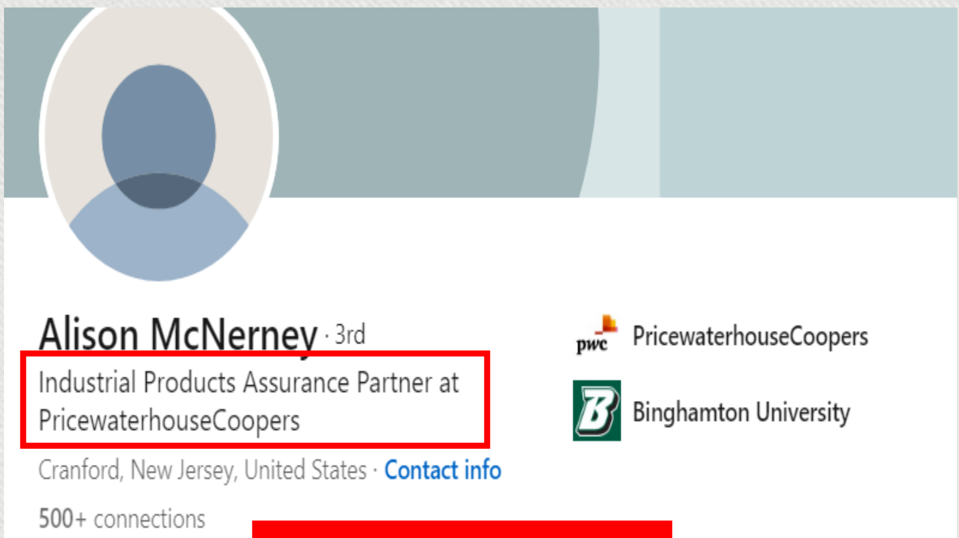
MSCI's Engagement Partner


Other Reported Names: Alison McNerney

Engagement Partner | ID 0023800356

FORM AP FILING Feb. 27, 2023	FORM AP FILING Mar. 8, 2022	FORM AP FILING Mar. 2, 2021
YEAR 2022	YEAR 2021	YEAR 2020
ENGAGEMENT PARTNER Alison Nicole McNerney	ENGAGEMENT PARTNER Alison Nicole McNerney	ENGAGEMENT PARTNER Alison Nicole McNerney
FIRM PricewaterhouseCoopers LLP (238)	FIRM PricewaterhouseCoopers LLP (238)	FIRM PricewaterhouseCoopers LLP (238)
ISSUER MSCI Inc. (MSCI; 0137B | 0001408198)	ISSUER MSCI Inc. (MSCI; 0137B | 0001408198)	ISSUER MSCI Inc. (MSCI; 0137B | 0001408198)

Audit Partner: Industrial Products Assurance



Is MSCI a financial service company or an industrial product?

Source: [PCAOB]() and [LinkedIn]()

MSCI Having To Strengthen Compliance Systems?

Spruce Point was surprised to see that in 2022, MSCI's proxy statement disclosed that audit-related fees included costs for the assessment of internal controls and compliance with a system implementation. During the same time period, audit fees actually declined which is atypical for a growing company in an inflationary cost environment.

Independent Auditor's Fees

The following table summarizes the aggregate fees (including related out-of-pocket expenses) expensed in 2022 and 2021 for professional services provided by PwC. On March 14, 2022, the Audit Committee approved the engagement of PwC as the Company's independent auditor for 2022. These fees were approved pursuant to the pre-approval policies and procedures described below.

$ in thousands	2022	2021
Audit fees(1)	3,213	3,396
Audit-related fees(2)	674	698
Tax fees(3)	424	1,329
All other fees(4)	193	16
Total	**4,504**	**5,439**

(1) Audit fees consisted of fees expensed for (i) audits of our consolidated financial statements included in our Annual Reports on Form 10-K and related services, (ii) reviews of the interim condensed consolidated financial statements included in our quarterly financial statements, (iii) audits of various entities for statutory and other reporting requirements, (iv) comfort letters, consents and other services related to SEC and other regulatory filings and (v) audits of our internal control over financial reporting (as required by Section 404 of the Sarbanes-Oxley Act of 2002).

(2) In 2022, Audit-related fees consisted of fees expensed for reports related to the assessment of internal controls and compliance with professional standards in connection with a system implementation as well as other assurance and related services. In 2021, Audit-related fees consisted of fees expensed for the annual benefit plan audit, as well as other assurance and related services.

(3) Tax fees in 2022 related to tax compliance assistance. Tax fees in 2021 consisted of $1,043,596 related to tax compliance assistance and $285,431 of tax consulting fees related to international and domestic tax matters, including international tax planning.

(4) In 2022, all other fees primarily consisted of fees related to pre-assurance services for certain ESG metrics. In 2021, all other fees primarily consisted of fees related to accounting research software subscriptions.

Most audit fees typically increase as companies grow. MSCI's audit fees declined.

First time for a disclosure that systems had to be implemented for compliance with professional standards and assurance matters.

Source: 2023 Proxy Statement

MSCI's Insider Alignment and Governance Is Weakening And Troubling

Long-Term Incentives Made Shorter

Spruce Point observes that MSCI's long-term incentive payouts have been shortened from 5 years to 3 years and are linked to cumulative Adjusted EPS and revenue. The targets are not provided and there is no reference that the revenue or earnings be organic, or adjusted for share repurchases. Given the sharp drop in the dividend growth rate, and the recent failure of MSCI to increase cash flow guidance, we would prefer to see management focus on cumulative cash flow.

Elements of Executive Compensation

Our executive compensation program in 2021 generally consisted of the following elements. We have also noted changes implemented in 2022 where applicable.

Compensation Element	Purpose	2021	2022
ANNUAL BASE SALARY STARTS ON PAGE 70	Provides certainty and predictability to meet ongoing living and other financial commitments	• The only fixed component of our executive compensation program	• The only fixed component of our executive compensation program. • In 2022, each of Messrs. Wiechmann and Gutowski received an increase to his annual base salary after a consideration of several factors, including peer group market data and competitive practices
ANNUAL INCENTIVE (Cash Bonus) STARTS ON PAGE 71	Intended to drive one-year performance results against financial targets and other Company, individual and leadership focused goals	• Metrics vary by executive, but include: • Revenue • Adjusted EPS • Net New Sales • Free Cash Flow • Key Performance Indicator/Leadership Effectiveness Goals • DE&I Goals	No change to metrics
LONG-TERM INCENTIVES STARTS ON PAGE 79	Fosters an "owner-operator" mindset, closely aligns management's interests with the long-term interests of our shareholders and promotes the retention of key members of our management team	• RSUs which ratably service vest over three years • Grant of 3-Year PSUs and 5-Year PSUs (which vest based on absolute TSR) • 3-Year PSUs cover a cumulative three-year performance period • 5-Year PSUs cover a cumulative five-year performance period • Each of Messrs. Fernandez and Pettit received 100% of their LTIP awards in the form of PSUs for 2021, with 60% of their PSUs granted in the form of 5-Year PSUs, the highest percentage amongst all of our NEOs for 2021 (for Mr. Pettit, an increase from 50% in 2020)	• RSUs which cliff vest after a three-year vesting period • Grant of 3-Year PSUs (which vest based on absolute TSR) • PSOs with a three-year performance period which vest based on the combined level of achievement of a cumulative adjusted EPS performance metric and a cumulative revenue performance metric • Each of Messrs. Fernandez and Pettit received 100% of their LTIP awards in the form of performance awards, with 50% in the form of PSUs and 50% in the form of PSOs, with other NEOs receiving a mix of 30% RSUs, 35% PSOs and 35% PSUs

Shorter time-period and no hard specifics provided on what the cumulative metrics targets are to trigger payments

Source: MSCI Proxy Statement

Spruce Point Capital Management

Short-Term Incentives

MSCI links both long and short-term executive compensation heavily towards Adjusted EPS, which we believe could be manipulated by management. Furthermore, in the past few years, the Board has weighted Total Net Sales (formerly referred to as Net New Sales) more heavily. We believe this has a signaling effect that the Company sees sales growth and client retention as a challenge.

MSCI – Short And Long-Term Comp Plan

Performance-Based Compensation

SHORT-TERM
(Annual Incentive Plan Cash Bonus)

(70%) Financial Performance

(20%) Key Performance Indicators

(10%) DE&I Goals

Aligns NEOs' interests with stakeholders' interests by:

- Rewarding performance for achievement of strategic goals, which are designed to position the Company competitively
- Promoting strong financial results and shareholder value
- Explicitly promoting DE&I progress

LONG-TERM
(Equity Grants)

- Restricted Stock Units (cliff-vest after a 3-year service period)
- Performance Stock Units (earned based on absolute TSR CAGR over a 3-year performance period) with a 1-year post-vesting mandatory holding period
- Performance Stock Options (earned based on cumulative revenue and cumulative adjusted EPS over a 3-year performance period)

Further aligns NEOs' interests with stakeholders' interests by:

- Promoting an "owner-operator" mentality among senior leaders
- Linking a substantial portion of long-term compensation to the achievement of operational results (revenue and adjusted EPS) and shareholder value creation (TSR)

2023 Short-Term Cash Incentive Goals

Name	2022 Target Cash Incentive ($)	Financial Component—Overall Weighting of 70%: MSCI Metrics: Revenue	Adjusted EPS	Total Net Sales	Free Cash Flow	KPIs	DE&I Goals
Henry A. Fernandez	1,400,000	20.0 %	30.0 %	40.0 %	10.0 %	20.0 %	10.0 %
Andrew C. Wiechmann	750,000	20.0 %	30.0 %	40.0 %	10.0 %	20.0 %	10.0 %
C. D. Baer Pettit(1)	1,113,692	20.0 %	30.0 %	40.0 %	10.0 %	20.0 %	10.0 %
Scott A. Crum	700,000	20.0 %	30.0 %	40.0 %	10.0 %	20.0 %	10.0 %
Robert J. Gutowski	650,000	20.0 %	30.0 %	40.0 %	10.0 %	20.0 %	10.0 %

2018 Short-Term Cash Incentive Goals

NAME	2018 TARGET CASH INCENTIVE ($)	FINANCIAL COMPONENT—OVERALL WEIGHTING OF 70%: MSCI METRICS: REVENUE	ADJUSTED EPS	TOTAL NET NEW SALES	FREE CASH FLOW	PRODUCT METRICS: ANALYTICS TOTAL NET NEW SALES	INDEX TOTAL NET NEW SALES	"ALL OTHER" TOTAL NET NEW SALES	KEY PERFORMANCE INDICATORS (KPIs)
Henry A. Fernandez	1,400,000	17.5%	28.0%	17.5%	7.0%	—	—	—	30.0%
Kathleen A. Winters	800,000	17.5%	28.0%	17.5%	7.0%	—	—	—	30.0%
C. D. Baer Pettit	1,048,341	17.5%	28.0%	17.5%	7.0%	—	—	—	30.0%
Laurent Seyer	934,827	14.0%	14.0%		7.0%	14.0%	14.0%	7.0%	30.0%
Jigar Thakkar(1)	324,110	17.5%	28.0%	17.5%	7.0%	—	—	—	30.0%

We believe greater emphasis could signal client retention challenges

Source: 2023 and 2018 Proxy Statement

Spruce Point Capital Management

MSCI Director Involved At SolarWinds Where The SEC Alleged Internal Control Failures And Fraud Occurred

MSCI's Director Catherine Kinney has been involved with SolarWinds (NYSE: SWI) since its IPO. She served as the Chair of the Nominating and Governance Committee which was responsible for firm-wide risk management and was also a member of the Audit Committee. Spruce Point finds it alarming that the SEC recently charged SolarWinds with fraud for internal control failures.

SolarWinds Cyber Risk Fell Under The Committee Chaired By MSCI Director Kinney

Risk Oversight

Our Board is responsible for overseeing our risk management process. The Board does not have a standing risk management committee, but rather administers this oversight function primarily through our nominating and corporate governance committee. The Board is also apprised of particular risk management matters in connection with its general oversight and approval of corporate matters and significant transactions.

Our nominating and corporate governance committee is responsible for our general risk management strategy, monitoring and assessing the most significant risks facing us and overseeing the implementation of risk mitigation strategies by management. Our nominating and corporate governance committee also monitors and assesses the effectiveness of our corporate governance guidelines and our policies, plans and programs relating to cyber and data security and legal and regulatory risks associated with our products and business operations.

Our audit committee and compensation committee also are responsible for overseeing certain risks related to their responsibilities. Specifically, our audit committee receives reports from management, the internal audit team, and the Company's independent registered public accounting firm relating to financial risks. Our compensation committee monitors and evaluates whether any of our compensation policies and programs have the potential to encourage unnecessary risk-taking.

Our management is responsible for day-to-day risk management. This oversight includes identifying, evaluating and addressing potential risks that may exist at the enterprise, strategic, financial, operational, compliance or reporting levels.

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Mike Bingle			Member
William Bock	Chair	Chair	
Seth Boro		Member	
Paul J. Cormier			Member
Kenneth Y. Hao		Member	
Catherine Kinney	Member		Chair
Easwaran Sundaram	Member		

SolarWinds Charged With Fraud And Internal Control Failures

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SEC Charges SolarWinds and Chief Information Security Officer with Fraud, Internal Control Failures

Complaint alleges software company misled investors about its cybersecurity practices and known risks

FOR IMMEDIATE RELEASE
2023-227

Washington D.C., Oct. 30, 2023 — The Securities and Exchange Commission today announced charges against Austin, Texas-based software company SolarWinds Corporation and its chief information security officer, Timothy G. Brown, for fraud and internal control failures relating to allegedly known cybersecurity risks and vulnerabilities. The complaint alleges that, from at least its October 2018 initial public offering through at least its December 2020 announcement that it was the target of a massive, nearly two-year long cyberattack, dubbed "SUNBURST," SolarWinds and Brown defrauded investors by overstating SolarWinds' cybersecurity practices and understating or failing to disclose known risks. In its filings with the SEC during this period, SolarWinds allegedly misled investors by disclosing only generic and hypothetical risks at a time when the company and Brown knew of specific deficiencies in SolarWinds' cybersecurity practices as well as the increasingly elevated risks the company faced at the same time.

As the complaint alleges, SolarWinds' public statements about its cybersecurity practices and risks were at odds with its internal assessments, including a 2018 presentation prepared by a company engineer and shared internally, including with Brown, that SolarWinds' remote access set-up was "not very secure" and that someone exploiting the vulnerability "can basically do whatever without us detecting it until it's too late," which could lead to "major reputation and financial loss" for SolarWinds. Similarly, as alleged in the SEC's complaint, 2018 and 2019 presentations by Brown stated, respectively, that the "current state of security leaves us in a very vulnerable state for our critical assets" and that "[a]ccess and privilege to critical systems/data is inappropriate."

In addition, the SEC's complaint alleges that multiple communications among SolarWinds employees, including Brown, throughout 2019 and 2020 questioned the company's ability to protect its critical assets from cyberattacks. For example, according to the SEC's complaint, in June 2020, while investigating a cyberattack on a SolarWinds customer, Brown wrote that it was "very concerning" that the attacker may have been looking to use SolarWinds' Orion software in larger attacks because "our backends are not that resilient;" and a September 2020 internal document shared with Brown and others stated, "the volume of security issues being identified over the last month have [sic] outstripped the capacity of Engineering teams to resolve."

Related Materials

- SEC Complaint

Source: SolarWinds Proxy Statement and SEC Announcement

Director Ownership Trends Are Concerning

Furthermore, consistent with our view of weakening governance measures, we find that Director ownership has noticeably declined in the past few years.

MSCI Insiders Ownership							
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
CEO and Chairman	1.79%	1.82%	2.41%	2.37%	2.43%	2.52%	2.58%
All other management	0.06%	0.20%	0.52%	0.53%	0.38%	0.39%	0.40%
Directors	0.41%	0.33%	0.21%	**0.04%**	**0.11%**	**0.10%**	**0.10%**
All Directors And Management	2.26%	2.36%	3.15%	2.94%	2.92%	3.02%	3.08%

Director Ownership Is Weak And Not Increasing

Source: Based on MSCI's proxy statements, institutional ownership forms and Spruce Point analysis

SPRUCE POINT CAPITAL MANAGEMENT

Is This Guy Really An Audit Technology Expert?

Spruce Point questions the inclusion of Rajat Taneja on the Audit Committee. By background, Mr. Taneja is a credit card and gaming technologist and has never held a finance, accounting, audit or financial reporting role that we could identify. MSCI lists the primary responsibilities of the Audit Committee and references technology in the second to last bullet point.

Credit Card And Video Game Technologist?

Director since: 2021

Age: 58 years old

Committees:

Audit Committee (Member)

RAJAT TANEJA — Independent Director

Mr. Taneja is currently the President of Technology for Visa Inc. ("Visa"), a role he has held since September 2019. He joined Visa in November 2013 and served as Executive Vice President of Technology and Operations until August 2019. Prior to joining Visa, Mr. Taneja was Executive Vice President and Chief Technology Officer of Electronic Arts Inc. from October 2011 until November 2013. From August 1996 until October 2011, he served in various roles at Microsoft Corporation ("Microsoft"), including as the Corporate Vice President, Commerce Division. At Microsoft, Mr. Taneja led the development and deployment of commerce and transaction technologies across its connected services, the company's online digital advertising platforms and its first business online service offering. Mr. Taneja holds a Bachelor of Engineering from Jadavpur University and a Master of Business Administration from Washington State University.

PRIOR OTHER PUBLIC COMPANY DIRECTORSHIPS:

Ellie Mae, Inc. (June 2015 to April 2019)

Wasn't on Audit Committee Here

QUALIFICATIONS:

We believe that Mr. Taneja's over 30 years of experience in global technology, innovation and research and development render him qualified to serve as one of our directors.

Audit Committee's Primary Responsibilities

PRIMARY RESPONSIBILITIES:

- Oversees the integrity of the Company's financial statements, internal controls over financial reporting, risk assessment and risk management (including major financial risk exposures and cybersecurity risks).
- Oversees the Company's internal controls over financial reporting, risk assessment and risk management.
- Oversees the appointment, compensation, retention, termination and oversight of the work of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, including the independent auditor.
- Evaluates the qualifications, independence and performance of the independent auditor, including obtaining a report of the independent auditor describing the items set forth in the Audit and Risk Committee's charter, including those required by the Public Company Accounting Oversight Board.
- Pre-approves audit and permitted non-audit services.
- Reviews and evaluates the internal audit plan and the performance, responsibilities, budget and staffing of the Company's internal audit function.
- Reviews and discusses with management and the independent auditor the annual audited and quarterly unaudited financial statements included in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively.
- Establishes procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by the Compa... able accounting or auditing matters, and the review of any submissions received pu...
- Reviews reports from management relating to the status of compliance with le...
- Reviews with management (i) the Company's key business risks, including the ... ory, litigation and financial risk exposures and technology and cybersecurity risks, ... ernance, risk assessment and risk management, and (iii) the steps that have been take...
- Reviews the Company's enterprise risk management program, including its ris... practices that facilitate the identification, assessment, mitigation and public reporting of r...

Technology mentioned in the second to last bullet point

We Believe The Expanding Audit Focus Areas Is a Negative Sign

KEY AREAS OF FOCUS IN 2021:

- Climate risk considerations in light of increasing interest by stakeholders.
- Risks associated with IT and cybersecurity.
- Risk management and governance of data and research used in our ESG and Climate business.

Key Areas of Focus in 2020:

- Climate risk considerations in light of increasing interest by stakeholders.
- Risks associated with IT and cyber security, including review of an executive breach and crisis management tabletop exercise centered around several 'worst case' cyber threat scenarios.
- Implementation of automated processes for certain accounting-related functions.

KEY AREAS OF FOCUS IN 2022:

- Risks associated with the evolving macro-economic environment, including inflation, the Great Resignation, geopolitical events and related global escalation of geopolitical tensions.
- Cybersecurity and business continuity capabilities.
- Data and technology governance, including process for internal audit action plans.
- Risks associated with utilization of third-party data in our business.
- Continued focus on the management and governance of data and research used in our ESG and Climate business.

Source: Proxy Statements and red emphasis by Spruce Point

Spruce Point Capital Management

Governance: Highly Inflated Adj. EPS

Spruce Point takes major issue with MSCI's Adj. EPS. For example, the Company wants investors to ignore $100 million of debt extinguishment costs associated with modifying its capital structure. However, MSCI has spent $2.3 billion in the past three years modifying its capital structure by repurchasing shares at a rich multiple to boost its EPS and ignores this effect on its Adj. EPS. We believe management looks to be using Company funds to hit bonus targets. In addition, MSCI wants investors to ignore real cash costs associated with software development activities. We believe Adj. EPS has been inflated by aggressive measures.

MSCI's Depiction of Adj. EPS

Reconciliation of Net Income and Diluted EPS to Adjusted Net Income and Adjusted EPS (unaudited)

In Thousands, Except Per Share Data	Years Ended Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Net Income	$ 870,573	$ 725,983	$ 601,822
Plus: Amortization of acquired intangible assets and equity method investment basis difference	67,373	47,001	37,413
Plus: Debt extinguishment costs associated with the 2024, 2025, 2026 and 2027 Senior Notes Redemptions	—	59,104	44,930
Plus: Write-off of internally developed capitalized software	—	16,013	—
Plus: Impairment related to sublease of leased property	—	8,702	—
Plus: Acquisition-related integration and transaction costs(1)(2)	4,220	7,041	—
Less: Gain from changes in ownership interest of equity method investee	—	(6,972)	—
Less: Tax Reform adjustments	—	—	(6,256)
Less: Income tax effect(3)	(11,883)	(26,462)	(16,490)
Adjusted net income	**$ 930,283**	**$ 830,410**	**$ 661,419**
Diluted EPS	$ 10.72	$ 8.70	$ 7.12
Plus: Amortization of acquired intangible assets and equity method investment basis difference	0.83	0.56	0.44
Plus: Debt extinguishment costs associated with the 2024, 2025, 2026 and 2027 Senior Notes Redemptions	—	0.71	0.53
Plus: Write-off of internally developed capitalized software	—	0.19	—
Plus: Impairment related to sublease of leased property	—	0.10	—
Plus: Acquisition-related integration and transaction costs(1)(2)	0.05	0.08	—
Less: Gain from changes in ownership interest of equity method investee	—	—	—
Less: Tax Reform adjustments	—	—	(0.07)
Less: Income tax effect(3)	$ (0.15)	$ (0.31)	$ (0.19)
Adjusted EPS	**$ 11.45**	**$ 9.95**	**$ 7.83**
Diluted weighted average common shares outstanding	**81,215**	**83,479**	**84,517**

(1) Acquisition-related integration and transaction costs of $4.1 million are presented within "General and administrative" expenses and $0.2 million are presented within "Depreciation and amortization of property, equipment and leasehold improvements" expenses for the year ended December 31, 2022.

(2) Incremental and non-recurring costs attributable to acquisitions directly related to the execution of the transaction and integration of the acquired business that have occurred no later than 12 months after the close of the transaction.

(3) Adjustments relate to the tax effect of non-GAAP adjustments, which were determined based on the nature of the underlying non-GAAP adjustments and their relevant jurisdictional tax rates.

Source: 2023 and 2018 Proxy Statement

Spruce Point Adj. EPS

$ in thousands	2020	2021	2022
MSCI Adj. EPS	**$7.83**	**$9.95**	**$11.45**
MSCI Net Income	**$601,822**	**$725,983**	**$870,573**
Plus: Cash Interest In Lieu of Stock Buybacks(1)	$3,098	$185	$19,451
Less: Amortization of Capitalized Software	($22,892)	($22,337)	($27,709)
Less: Impairment of Capitalized Software	--	($16,013)	--
Less: Debt Extinguishment Expense	($44,930)	($59,104)	--
Less: Income Tax Effect	($14,699)	($16,175)	($5,602)
Spruce Pt. Adj. Net Income	**$522,400**	**$612,538**	**$856,713**
Constant Diluted Shares	85,536	85,536	85,536
Spruce Pt. Adj. EPS	**$6.11**	**$7.16**	**$10.02**
% below MSCI's Adj. EPS	***-22%***	***-28%***	***-13%***
$ of Stock Repurchased	***$778,519***	***$198,374***	***$1,397,506***

1) Estimates based on reported interest income divided by average cash balance in the year multiplied by cash spent on share repurchases.

Is This The Most Qualified "Financial Expert" MSCI Could Find?

Spruce Point does not have confidence in the Board's ability to evaluate management's outlandish Adj. EPS results among other aspects of its financial reporting. MSCI claims its Audit Committee *"Financial Expert"* is Mr. Robert Ashe, who primarily served operational and business management roles with a brief stint as a CFO over twenty years ago. In fact, while he was CEO of Cognos, the Company delayed its 10-K/Q as the SEC reviewed its revenue recognition policies.(1)

A Business Manager With A Brief Stint As CFO Over 20 Years Ago….

2023 Director Nominees

ROBERT G. ASHE — **Independent Lead Director**

Mr. Ashe retired from IBM Corporation ("IBM") in January 2012, where he had most recently served as General Manager of Business Analytics from 2010 to 2012 and before that as General Manager of Business Intelligence and Performance Management since 2008, following IBM's acquisition of Cognos Inc. ("Cognos"), a Canadian provider of business intelligence and performance management software. Mr. Ashe worked for Cognos from 1984 to 2008, holding various executive positions, including most recently President and Chief Executive Officer from 2004 to 2008, President and Chief Operating Officer from 2002 to 2004 and Chief Corporate Officer from 2001 to 2002, during a portion of which time he also served as Chief Financial Officer. He also held various Senior Vice President positions in Worldwide Field Operations, Products and Application Development Tools from 1996 to 2001. Prior to that, he held various Vice President roles within Product Development and Corporate Finance. Mr. Ashe holds a Bachelor of Commerce from the University of Ottawa. Mr. Ashe is also a Certified Public Accountant in Canada.

Director since: 2013
Age: 63 years old
Committees:
Audit Committee (Member)
Strategy Committee (Chair)

CURRENT OTHER PUBLIC COMPANY DIRECTORSHIPS:

Shopify Inc. (December 2014 to present)

PRIOR OTHER PUBLIC COMPANY DIRECTORSHIPS:

ServiceSource International, Inc. (March 2013 to May 2020) and Halogen Software Inc. (February 2013 to April 2017)

QUALIFICATIONS:

We believe that Mr. Ashe's over 30 years of experience in the technology sector, including his oversight of product marketing, software development, revenue growth initiatives and strategic transactions, render him qualified to serve as one of our directors. As a member of other public company boards and the former CEO of a public company, Mr. Ashe also brings to the Board insight with respect to the Board's roles and responsibilities that are vital to his role as our Lead Director.

Wouldn't MSCI investors be better served with a Financial Expert on the Audit Committee with a U.S. CPA trained in U.S. GAAP?

Is An Audit Committee "Financial Expert" of an S&P 500 Company

Robert G. Ashe has been our Lead Director since April 2018. As a member of other public company boards, the former CEO and CFO of a public company and an audit committee financial expert, Mr. Ashe also has significant experience with respect to the Board's roles and responsibilities, including those related to risk oversight and the Board's design and leadership structure. Further, our Chairman and Lead Director work closely to discuss strategic initiatives for the Company and to ensure the Board is effectively exercising its oversight responsibilities and its consideration of the Company's significant risks and opportunities. The Board, in executive sessions of independent directors (which are presided over by the Lead Director), also considers and discusses risk-related matters. These sessions provide a forum for candid discussion of risk-related matters, without management or the Chairman and CEO present.

AUDIT AND RISK COMMITTEE

MEMBERS:

Wayne Edmunds (Chair)
Robert G. Ashe
Sandy C. Rattray
Linda H. Riefler
Rajat Taneja

MEETINGS HELD IN 2022: 9

- All members are independent within the meaning of the NYSE standards of independence for directors and audit committee members.
- All members satisfy NYSE financial literacy requirements, each of Messrs. Ashe, Edmunds and Rattray and Ms. Riefler have accounting or other related financial management expertise, and Messrs. Ashe and Edmunds have been designated as "audit committee financial experts," as defined by SEC rules.

Source: 2023 Proxy Statement
1) Cognos 8-K

Why 55% – 65% Downside Risk Exists To MSCI's Share Price

Insights From Long-Term Remaining Performance Obligations Are Bearish

Beyond the already obvious signs of stress identified across MSCI's segments, Spruce Point also believes insights can be gleaned by looking at remaining performance obligation for contracts with a duration greater than one year. We observe that sequential growth has sharply declined while a greater percentage of the revenue is projected to be recognized farther into the future. One former sales executive told us that long-term contracts and discounts were used to retain clients. This gives us greater conviction why we believe MSCI's future margins will come under more pressure.

Expected Revenue From Contracts With Duration > 1 Year

	2021	2022				2023		
$ in mm	**FY**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
First 12-months	$476.1	$503.0	$538.3	$572.6	$629.9	$673.2	$682.8	$695.0
Second 12-month	$273.4	$291.1	$311.3	$333.0	$373.8	$408.2	$419.7	$420.1
Third 12-month	$96.3	$101.4	$115.5	$138.8	$169.3	$188.2	$186.0	$182.4
Periods After	$40.9	$61.6	$63.1	$84.4	$124.9	$126.3	$121.3	$135.4
Total	**$886.7**	**$957.2**	**$1,028.1**	**$1,128.8**	**$1,298.0**	**$1,395.8**	**$1,409.8**	**$1,432.9**
QoQ Change	--	*7.9%*	*7.4%*	*9.8%*	*15.0%*	*7.5%*	*1.0%*	*1.6%*
% of Total								
First 12-month	*53.7%*	*52.5%*	*52.4%*	*50.7%*	*48.5%*	*48.2%*	*48.4%*	*48.5%*
Second 12-month	*30.8%*	*30.4%*	*30.3%*	*29.5%*	*28.8%*	*29.2%*	*29.8%*	*29.3%*
Third 12-month	*10.9%*	*10.6%*	*11.2%*	*12.3%*	*13.0%*	*13.5%*	*13.2%*	*12.7%*
Periods After	*4.6%*	*6.4%*	*6.1%*	*7.5%*	*9.6%*	*9.0%*	*8.6%*	*9.5%*
Total	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***

Slowing growth

Notice growing % being recorded in the outer years

Source: MSCI SEC filings and Spruce Point analysis

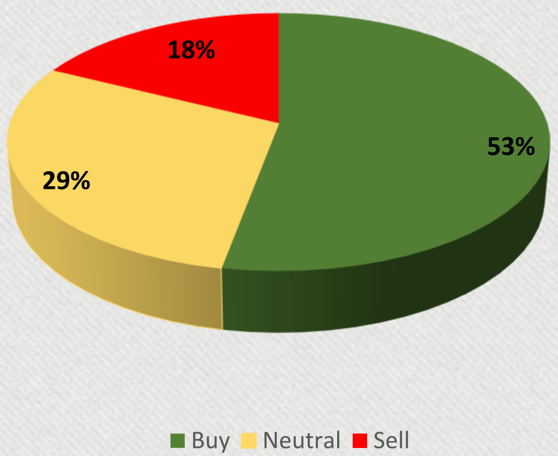
Poor Risk / Reward Owing MSCI Stock

Spruce Point believes there is a certain comedic humor in the ratings and price targets of MSCI. Notably, one of the highest price targets on the Street is Morgan Stanley, who recently upgraded the stock calling it a “Top Pick”. Of course, MSCI was founded as Morgan Stanley Capital International with Morgan Stanley incubating the business and having acted as its lead IPO underwriter in 2007. As such, we believe Morgan Stanley is the most biased promoter of the stock. Ironically, Morningstar, which is a key competitor to MSCI, has the lowest rating on the stock and a Sell recommendation. While also biased, we believe their rationale to sell the stock far outweighs the merits from the upside case promoted by Morgan Stanley.

Analyst	Recommendation	Price Target
Redburn	Neutral	$620
Wells Fargo	Overweight	$615
Morgan Stanley	Overweight	$614
Oppenheimer	Outperform	$601
Barclays	Overweight	$600
Argus	Buy	$580
Autonomous	Outperform	$575
Huber	Overweight	$574
RBC	Outperform	$570
Baptista	Hold	$561
JPMorgan	Overweight	$550
Goldman	Neutral	$544
Raymond James	Market perform (1)	--
Deutsche Bank	Hold	$527
BNP Paribas	Underperform	$470
Bofa/ML	Underperform	$460
Morningstar	Sell	$440
Average Price Target:		**$556**
% implied upside		***+2.6%***

Note: Upside based on current share price of $542.47. Source: Bloomberg and Spruce Point analysis (1) Recently downgraded from outperform

Rating Distribution



“MSCI has benefited from a first mover advantage in ESG, but that sales engine is slowing and data competition is escalating.”

“We view the largest risks as stemming from business ethics and product governance issues.”

Spruce Point Capital Management

Share Ownership Trends Are Concerning

Spruce Point believes the fundamental case against owning MSCI is mirrored by movements among its largest institutional owners. Fidelity and T.Rowe Price were formerly >5% owners but have repeatedly reduced their ownership in the Company. Meanwhile, passive owners also don't appear to be increasing their stakes in a material way.

MSCI Share Ownership Trends of Insiders and >5% Institutional Shareholders

	2017	2018	2019	2020	2021	2022	2023
Fidelity (Active)	13.0%	8.7%	5.7%	4.6%	4.3%	4.4%	2.7%
T.Rowe Price (Active)	7.3%	2.6%	3.3%	4.9%	4.6%	1.8%	1.7%
Vanguard (Passive)	9.3%	9.7%	11.2%	11.1%	10.4%	10.5%	10.8%
BlackRock (Passive)	9.0%	9.9%	7.6%	7.9%	7.8%	8.3%	8.2%

Large Active And Fundamental Owners Declining

While Passive Investors Are Not Materially Increasing Ownership

Source: Based on MSCI's proxy statements, institutional ownership forms and Spruce Point analysis

Bull Case Promotion Rests On Faulty Assumptions

Spruce Point believes the current sell-side promoters need to refresh their thinking about MSCI and the sustainability of its growth and margins. We believe it is easy to dismiss much of the narrative with some simple channel checks, a closer forensic review of MSCI's financials and by speaking with former employees.

Barclays: $600 / share

Squandered ~$1bn on Real Capital Analytics which has lost clients. Analytics segment growth is well below long-term targets.

Price Target USD 600.00

Why OVERWEIGHT?

MSCI is a top quality financial info services company, with a blue-chip Index franchise (+LDD organic grower with 70%+ margins) and an Analytics business that is showing strong momentum. We believe a premium multiple is warranted for the combination of top-line growth and margin expansion that MSCI is delivering.

How much is coming from increasing capitalized costs?

JPMorgan: $550 / share

Do some channel checks. Declining leadership position!

Summary Investment Thesis and Valuation

Investment Thesis

In our view, MSCI is a proven high-growth compounder with leading offerings in both the lucrative index data field and the emergent ESG information industry. The company is a global leader in global and international equity indices and benchmarking. The firm is also the leading provider of ESG research, data, and analytics as well as ESG & Climate indices. As of year-end 2022, ~$13.7 trillion in AUM was benchmarked to MSCI indices.

Within the highly impressive Information Services sector, MSCI has demonstrated best-in-class organic revenue growth, with leading margins and robust free cash flow conversion. These attractive fundamentals are complemented by the company's demonstrated ability to deploy capital effectively and the business's proven expense flexibility.

Valuation

Our Dec-2024 price target for the MSCI stock is $550 (17% potential upside). Our price target equates to 33.1x our 2025E adjusted EPS estimate. This multiple is notably above the median 2024 multiple for the Info Services sector (24.7x). Historically, MSCI has traded at a notable premium to its Info Services peer group. We believe this premium multiple is merited as MSCI's organic revenue growth and margins are well above the Info Services sector median.

Wells Fargo: $615 / share

Mindshare doesn't drive profits, first mover advantage eroding.

Investment Thesis

We rate MSCI Overweight. We view MSCI as a best-in-breed compounder with multiple growth levers, namely the crown jewel index business (market-leader in international & thematic indices), as well as their first-mover advantage in nascent growth key areas of ESG/Climate with significant mindshare given long-standing Asset Manager relationships and an evolving technology strategy supporting its compounder status.

Risk vs. Reward – Upside/Downside Price Target Scenarios

*As of 10/31/23
Source: Wells Fargo Securities, LLC estimates and Refinitiv.

Source: Broker reports

SPRUCE POINT
CAPITAL MANAGEMENT

MSCI's Valuation Is Stretched

MSCI trades at the highest valuation among its financial services peer group despite clear evidence of business and financial challenges facing the Company.

Peer Public Company Valuation Metrics

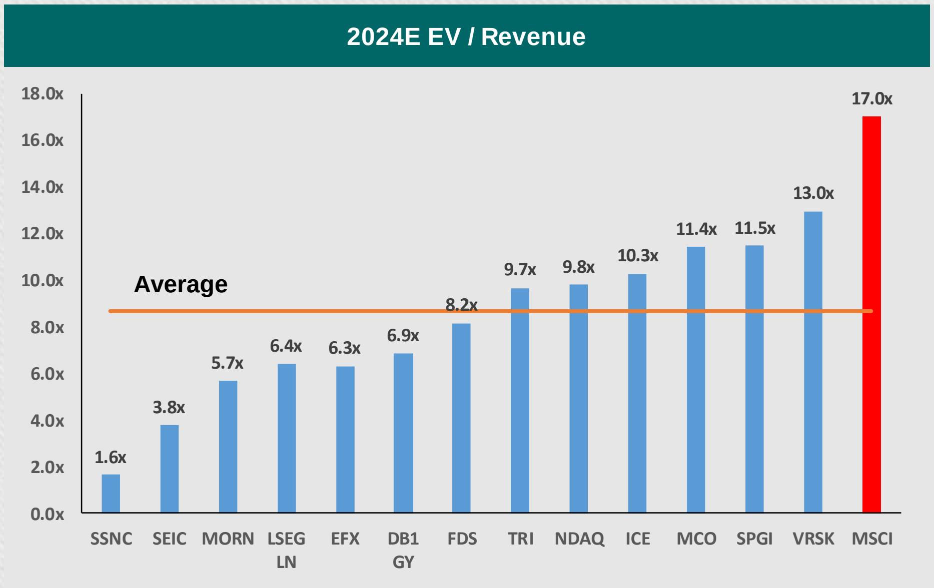
$ in mm, except per share figures

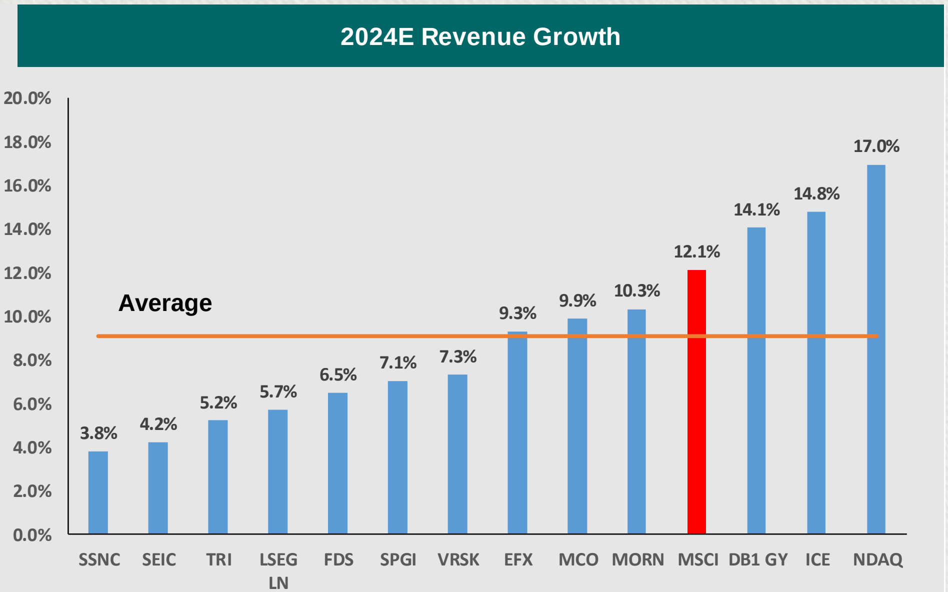
Name (Ticker)	Stock Price 1/16/2024	Adj Ent. Value	2024E OCF Margin	Sales Growth '23E-'24E	EBITDA Growth '23E-'24E	EV / Sales 2023E	EV / Sales 2024E	EV / EBITDA 2023E	EV / EBITDA 2024E	Net Debt 2024E EBITDA	Div. Yield
S&P Global (SPGI)	$436.55	$152,896	38.8%	7.1%	11.4%	12.3x	11.5x	26.3x	23.6x	1.6x	0.8%
Intercontinental Exhg. (ICE)	$126.03	$94,028	52.7%	14.8%	11.9%	11.8x	10.3x	17.9x	16.0x	3.9x	1.3%
Moody's (MCO)	$381.73	$74,269	35.7%	9.9%	14.6%	12.5x	11.4x	28.3x	24.7x	1.3x	0.8%
London Stock Exchange (LSEG LN)	$117.64	$70,747	19.4%	5.7%	8.6%	6.8x	6.4x	14.6x	13.4x	1.3x	1.2%
Thomson Reuters (TRI)	$147.58	$69,372	33.7%	5.2%	4.8%	10.2x	9.7x	26.0x	24.9x	0.7x	1.3%
Nasdaq (NDAQ)	$56.46	$43,364	42.7%	17.0%	16.3%	11.5x	9.8x	20.9x	18.0x	4.7x	1.6%
Deutsche Boerse (DB1 GY)	$206.23	$43,143	36.9%	14.1%	8.3%	7.8x	6.9x	13.3x	12.3x	1.0x	1.9%
Verisk Analytics (VRSK)	$237.03	$37,235	41.9%	7.3%	9.8%	13.9x	13.0x	26.0x	23.7x	1.7x	0.6%
Equifax (EFX)	$246.45	$36,315	25.8%	9.3%	17.0%	6.9x	6.3x	21.4x	18.3x	2.8x	0.6%
FactSet Research (FDS)	$462.23	$19,191	32.7%	6.5%	7.9%	8.7x	8.2x	22.1x	20.5x	1.6x	0.8%
Morningstar (MORN)	$275.00	$12,674	21.0%	10.3%	23.5%	6.3x	5.7x	29.8x	24.1x	1.7x	0.6%
SS&C Technologies (SSNC)	$59.84	$9,357	24.1%	3.8%	6.6%	1.7x	1.6x	4.4x	4.2x	3.0x	1.6%
SEI Investments (SEIC)	$63.14	$7,560	19.9%	4.2%	9.4%	3.9x	3.8x	14.2x	12.9x	-1.5x	0.0%
		Max	52.7%	17.0%	23.5%	13.9x	13.0x	29.8x	24.9x	4.7x	1.9%
		Average	32.7%	8.9%	11.6%	8.8x	8.0x	20.4x	18.2x	1.8x	1.0%
		Min	19.4%	3.8%	4.8%	1.7x	1.6x	4.4x	4.2x	-1.5x	0.0%
MSCI Inc. (MSCI)	**$542.47**	**$46,946**	**47.4%**	**12.1%**	**11.3%**	**18.8x**	**16.7x**	**31.5x**	**28.3x**	**2.3x**	**1.0%**
MSCI Adjusted	**$542.47**	**$47,633**	**47.4%**	**12.1%**	**11.3%**	**19.1x**	**17.0x**	**31.9x**	**28.7x**	**2.7x**	**1.0%**

Source: Company financials, Bloomberg and Spruce Point estimates. MSCI is adjusted for cash paid for Burgiss (completed Oct 2023)

MSCI's Revenue Valuation Relative To Projected Growth

MSCI's revenue valuation premium is difficult to reconcile in relation to its projected growth. The market expects 12% growth in 2024 and may be extrapolating that MSCI can continue its recent actions of punitive price increases. However, we challenge this assumption given evidence that MSCI is losing customers, competition is increasing, and our customer poll indicates clients are most sensitive to price.



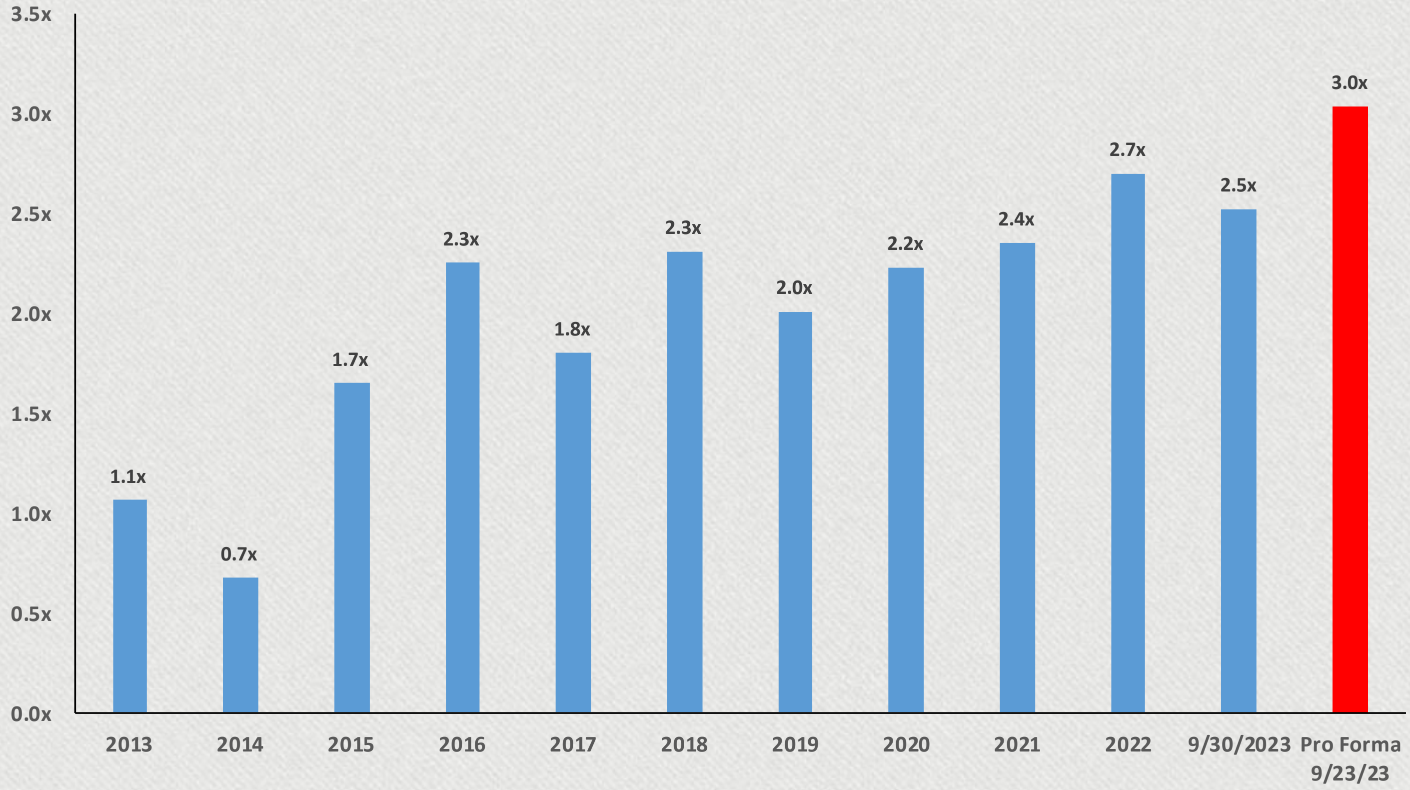


Source: Company financials, Bloomberg and Spruce Point estimates. MSCI is adjusted for cash paid for Burgiss (completed Oct 2023)

We Believe That MSCI's Leverage Is Rising At The Wrong Time

MSCI's leverage ratio keeps rising and is at a decade high which significantly increases the risk to equity holders. At the current time, we believe it is a recipe for disaster that leverage is rising while client Retention Rate falls and competitive risks increase.

MSCI's Net Debt / EBITDA



Source: Company financials, Bloomberg and Spruce Point analysis. Pro Forma EBITDA assumes $13.5 million Burgiss contribution.

Spruce Point Capital Management

Spruce Point Estimates 55% – 65% Downside Risk

Spruce Point believes there is significant downside risk to MSCI's share price as its premium multiple is reconsidered by institutional investors in the face of intensifying competition, moderating cash flow and dividend growth, and lower earnings quality. We believe MSCI's shares trades at an unwarranted premium to the sum-of-parts for its business segments and will underperform the S&P 500 and its own relevant index benchmarks over the next 12 months.

MSCI Sum-of-Parts Share Valuation

$ in mm, except per share figures	Sales Multiple		Comment
	Low Case	Base Case	
'24E Index Sales	$1,492	$1,570	
Multiple Range	8x	10x	Most defensible LT business should have the highest multiple.
Index Value	**$11,936**	**$15,700**	
'24E Analytics Sales	$645	$656	
Multiple Range	5x	6x	In-line with Barra/RiskMetrics multiple paid. Low growth, weakest segment.
Analytics Value	**$3,225**	**$3,936**	
'24E ESG/Private Sales	$583	$614	
Multiple Range	6x	7x	In-line with recent M&A deal prices. MSCI overpaid for RCA and Burgiss. Growth expected to moderate.
ESG/Private Assets	**$3,498**	**$4,298**	
Total Enterprise Value	**$18,659**	**$23,934**	
Less: Total Debt	($4,753)	($4,753)	Add: Leases and $100M revolver draw
Plus: Pro Forma Cash(1)	$241	$241	$351M cash reported 10/31/23, less $109M of dividends paid. Note:
Equity Value	**$14,148**	**$19,423**	
Diluted Shares	79.5	79.5	
Est. Share Price	**$177.98**	**$244.34**	
% Downside	***-67%***	***-55%***	

Source: Company financials, Spruce Point research, and market estimates

Factors Why MSCI's Valuation Should Compress

- Clear evidence suggesting increased competition across all MSCI's segments.
- Suspension of margin targets in favor of Adj. EPS while cash flow growth stagnates and the dividend growth rate collapses to 10% vs. 27% average.
- Evidence to suggest more aggressive revenue recognition and cost capitalization to flatter EPS.
- Evidence to suggest MSCI overpaid for Real Capital Analytics at 13x sales, is delaying goodwill impairment and applying flawed accounting assumptions related to recurring revenue and expense amortization.
- Expensive and dilutive acquisition of Burgiss at 10x revenue necessary to transform itself to compete carries substantial execution risk.
- Preponderance of recent deals and alliances favoring Morgan Stanley / MSCI alums raises concerns that diverting time and capital into areas not in the best interest of MSCI shareholders.
- Failure to replace the Chief Accounting Officer, lack of Global Controller and audit engagement partner as a non-financial expert increases reporting risks.

Spruce Point's Final ESG Rating Assessment of MSCI

Spruce Point's proprietary rating of MSCI ESG rating is "F". We believe there are many areas where MSCI can improve to raise its rating to become a better governed and respected company among its industry peers.

F	B	BB	BBB	A	AA	AAA

Dogs of ESG

- ✓ Facilitates money flows to Chinese companies with alleged human rights violations.
- ✓ CEO/Chairman role not separated.
- ✓ CFO/CAO role not separated.
- ✓ Nepotism-like acquisitions and alliances.
- ✓ Doesn't provide guidance on metrics linked to long-term executive comp.
- ✓ Audit engagement partner is not a financial services expert.
- ✓ Director currently serves at SolarWinds which was just charged with fraud by the SEC.
- ✓ "Financial Expert" on Audit-Committee is a non-US CPA.
- ✓ And many more……

Middle of the Dog Pack

Blue Chip Thoroughbreds