KAI SPOTLIGHT

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KAI ASSET MANAGEMENT

Company Spotlight MSCI

At KAI Asset Management, we continuously evaluate our holdings to ensure we are invested in businesses with pricing power, strong fundamentals, and attractive return profiles. Our latest portfolio adjustment involves entering a position in MSCI Inc., a leading provider of investment data and decision-support tools, and exiting our position in Equifax, a company we have held since 2020. This transition is driven by our assessment of valuation, growth potential, and capital efficiency, all of which we view as favouring MSCI at this stage.

MSCI Inc. is a global leader in financial data and analytics, best known for its indexing business, which provides benchmarks used by asset managers, ETFs (Exchange-Traded Funds), and institutional investors worldwide. The company's flagship MSCI Emerging Markets Index, MSCI World Index, and MSCI EAFE Index are deeply integrated into global financial markets, with over US$16 trillion in assets benchmarked to MSCI equity indices.[1]

MSCI stands out to us for the durability of its competitive advantages, particularly the high switching costs once its products become entrenched in an investment mandate. Asset managers and institutional investors rely heavily on MSCI indices and risk analytics to benchmark performance, manage portfolios, and meet regulatory requirements. Once integrated, replacing MSCI solutions would require significant operational changes. This point can be evidenced by MSCI's high client retention rate of approximately 94%.[2]

MSCI's revenue model is highly resilient, with approximately 97% of its revenue being recurring in nature due to its subscription-based and asset-linked licensing fees.[3] This provides the company with strong pricing power and predictable cash flows, enabling consistent reinvestment into its technology and data services.

The company has also demonstrated strong capital discipline, maintaining high operating margins and returning capital to shareholders through steady share repurchases. Over the past decade MSCI has retired approximately one-third of its outstanding shares, underscoring its commitment to enhancing shareholder value.[4]

We believe MSCI represents a compelling long-term opportunity due to its entrenched position in global finance, strong pricing power, and ability to generate high-margin, recurring revenue.

Why We Divested Equifax for MSCI

Equifax has been a core holding in our portfolio since 2020, and we continue to view its business model as resilient and essential. As one of the three major credit bureaus, Equifax plays a crucial role in consumer and business credit markets, providing credit scores, risk analytics, and identity verification services to various financial institutions. Over the past five years, the company has successfully expanded its Workforce Solutions division, which has strengthened its revenue diversification beyond traditional credit reporting.

However, while we believe Equifax remains a strong business, our primary concern lies with its valuation. At current prices, the market is pricing in a level of future growth that we believe is overly optimistic given the company's historical execution. Additionally, while Equifax has made necessary investments to strengthen its data security and analytics capabilities, it has not demonstrated the same level of compelling shareholder returns as some of our other holdings.

Given the rich valuation and Equifax's uneven trajectory, we believe now is the right time to exit the position and allocate capital to a more compelling opportunity.

While we still view Equifax as a solid business, we believe its current valuation limits its upside potential. We see greater long-term value creation in MSCI, given its dominant market position, high retention rates, and strong financial performance. In our view, the company's ability to maintain its competitive edge through deep integration within customers' businesses makes it a particularly attractive opportunity.

This transition reflects our ongoing commitment to optimizing our client portfolios. As always, we continue to monitor market conditions and adjust our portfolios accordingly to capitalize on the best available opportunities.

[1]MSCI Inc. website, *Indexes* (March 13, 2025) [2]MSCI Inc., *MSCI Reports Financial Results for Third Quarter and Nine Months of 2024* (2024) [3]MSCI Inc., *MSCI Earnings Presentation – Q3 2024* (October 29, 2024) [4]S&P Capital IQ, KAI Asset Management Inc. (KAM) analysis (March 2025) |