

Knee-jerk reaction after MSCI's decision

Last night MSCI raised investors concern with regards to shareholding structures and possible coordinated trading behaviour in Indonesian securities. Hence, MSCI mention more granular and reliable information on shareholding structures, possibly including high shareholding concentration monitoring is required to support a robust assessment of free float and investability of Indonesian securities.

MSCI will apply an interim freeze on certain index related changes for Indonesia securities such as:

- a. Freeze all increases to Foreign Inclusion Factors (FIF) and Number of Shares (NOS)
- b. MSCI will not implement index additions to MSCI Investable Market Indexes (IMI)
- c. MSCI will not implement any upward migration across size-segment indexes, including from Small Cap to Standard

MSCI want to see necessary transparency enhancement and will reassess Indonesia's market accessibility status by May 2026, which may result in:

- 1) weighting reduction in MSCI Emerging Market Indexes to all Indonesian securities,
- 2) potential reclassification of Indonesia from Emerging Market to Frontier Market status

Our take:

Further data transparency in shareholding structures of Indonesian securities will be needed to address MSCI's concern to avoid potential sizeable foreign fund outflow from Indonesia if Indonesia's weight reduction or reclassification to Frontier Market status. We hope relevant authorities can engage and work with MSCI to address this concern before May 2026. Meanwhile this issue may become overhang for the market until further clarification.

We maintain our positive view on the global and domestic market, as we believe purchasing power will improve supported by both expansionary fiscal and monetary policies and relatively stable Indonesia's macroeconomy (fiscal/budget, current account, inflation, etc.). We will use this opportunity to add position in companies with good fundamental/business model, resilient financial performance and attractive valuation.

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