

Another Perspective: Will MSCI Trigger Foreign Outflows? *Not Necessarily!*

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...Connecting three different but totally related threads here:

- (1) MSCI's methodology change,
- (2) Passive fund behavior and valuation discipline, and
- (3) Why the JCI drop is more of a logical profit-taking than a true outflow.

1 The Starting Point: MSCI's Plan

Morgan Stanley Capital International (MSCI) is reviewing changes to how free float is calculated for Indonesian equities. Under the proposal, MSCI would use the lowest public float figure between issuer disclosures (public reports, press releases, or official filings) and custodian data (KSEI), while tightening the definition of non-free float (e.g., scrip shares and concentrated/structured holdings). Public consultation runs through 31 December 2025, with results by January 2026 at the latest. **If approved, the new methodology would take effect in the MSCI Index Review of May 2026.** The primary aim is to improve transparency, data consistency, and index weight quality across global benchmarks.

2 Immediate Market Impact

Once the discussion surfaced, the JCI fell sharply from its all-time high of 8,355, briefly dipping below 8,000 intraday before recovering to close at 8,117. Many domestic investors took profits—especially in large conglomerate names like BREN and peers that had previously rallied on index-inclusion catalysts. **If MSCI changes how free float is computed, that catalyst naturally fades—cue natural rotation and orderly profit-taking after a strong run.**

3 Foreign Perspective: Rotation, Not Outflow

Foreign investors—particularly passive funds and global managers—did not rush for the exits. They generally follow three core principles:

- 1. Liquidity & Free Float:** to move in/out without overly moving prices.
- 2. Valuation Discipline:** avoid names that have run too hot; global mandates require price discipline.
- 3. Index Representation:** if Indonesia's country weight in MSCI isn't cut, flows typically rotate within Indonesia rather than exiting Indonesia.

Given stretched valuations in some large caps, foreign ownership there wasn't dominant. **Hence, the JCI decline likely reflected domestic profit-taking, not a wave of foreign capital flight.**

4 Strategic Takeaway

Paradoxically, MSCI's plan could strengthen market quality over time—nudging issuers to raise free float, tighten governance, and make Indonesia more investable to global capital. **In the short term, expect volatility from index weight adjustments and portfolio rotation.**

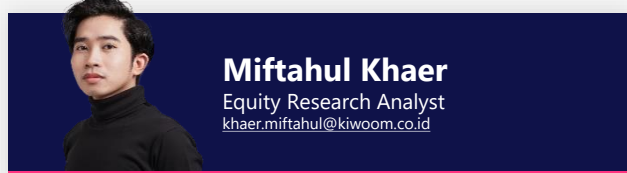
5 KIWOOM OPINION

This JCI correction looks more like normal profit-taking and domestic repositioning, not a foreign pullout. Foreign investors stayed in but became more selective—favoring liquid names with fair valuations and larger free float (banks, TLKM, ASII). **The fact that foreigners posted net buys (~IDR 340bn in the regular market and ~IDR 1.2tn in the all market)** reinforces the view that the MSCI issue is about rotation/redistribution, not a “flight to safety” out of Indonesia. Notably, the largest foreign buys included BBCA, BRPT, BREN, BRMS, CUAN (curiously, still a set of conglomerate-group names, isn't it?).

6 Linkage with Domestic Policy (IDX–OJK–Parliament)

At the same time, **Parliament and market authorities are discussing raising the minimum free float on the Indonesia Stock Exchange from 7.5% toward 30%.** This broadly aligns with MSCI's spirit—deepening the market and improving governance. If both tracks move in parallel—the global (MSCI consultation) and the domestic (free float regulation)—the outcome could be a structural reset in Indonesia's ownership landscape. The real challenge is execution: **how to phase the transition without unsettling the market. If 30% is indeed adopted, how much stock would need to be placed into the market, and can the market absorb an extra 10–20% smoothly?**

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