

## AHEAD OF MSCI & FTSE INDEX REVIEW / REBALANCING

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MSCI and FTSE are not assessing Indonesia's economic growth, but rather the quality and accessibility of the Indonesian capital market. With a population of ~280 million people, many foreign investors still believe Indonesia can grow by 5%; but the question is whether the Indonesian market still meets the standards they expect to allocate their capital in the long term.

### 1. Are market participants currently starting to anticipate the results of the MSCI and FTSE Russell review?

**Yes, especially institutional and foreign investors.**

In our view, some of these concerns are already reflected in the **foreign fund outflows** that have reached almost Rp80 trillion year-to-date. However, the market is currently focusing more on the possibility of a change in perception towards Indonesia rather than technical changes to the index itself. Undoubtedly, we also suspect that front running by smart money when stock valuations are at their cheapest, as they are now, has occurred quietly even without foreign flags.

What investors are waiting for is not just whether Indonesia remains in the Emerging Market (which we are still optimistic Indonesia will not be downgraded from this title), but whether MSCI and FTSE provide additional notes regarding market accessibility, regulatory certainty, investor protection, and the independence of market mechanisms. Therefore, this year's review carries a greater psychological weight compared to previous years.

### 2. What are the most risky issues to be noted by MSCI and FTSE regarding the Indonesian market?

**In our opinion, there are three main issues.**

**First, market accessibility and ease of investing.** Foreign investors pay close attention to the ease of entering and exiting the market, transaction processes, settlement, short selling, securities lending, and market operational efficiency.

**Second, predictability of policy or policy certainty.** Global investors generally can accept policy changes, but they are highly sensitive to policies that appear suddenly, with minimal market consultation, or that have the potential to significantly alter market mechanisms.

**Third, governance and market confidence.** In recent months, various discussions have emerged regarding the state's growing role in financial markets, including through various policy initiatives and strategic investment institutions. For foreign investors, the most important thing is not who the actor is, but whether the market mechanism remains transparent, competitive, and predictable.

Therefore, in our view, the biggest risk does not stem from macroeconomic conditions, but from the *perception of institutional quality and the certainty of the rules of the game.*

### 3. Which sectors or stocks have the potential to benefit the most if the MSCI review results are deemed positive by the market?

***If the review results are better than market expectations, the main beneficiaries will likely be large-cap stocks that have been the primary destination for foreign funds.***

**The banking sector** has the potential to be the main winner, especially stocks like Bank Central Asia, Bank Rakyat Indonesia, Bank Mandiri, and Bank Negara Indonesia because they hold large weights in the index and have high liquidity.

In addition, **blue-chip stocks** such as Telkom Indonesia, Astra International, as well as several large commodity issuers also have the potential to benefit from improved foreign sentiment.

In the initial stage, foreign investors usually enter the most liquid and easily accumulated stocks before spreading to other sectors. Therefore, if conglomerate stocks have addressed their free float issues, it is not impossible that these stocks will once again become the buying destination for passive funds that indeed require big market caps for their positioning scale.

### 4. Does this decision have the potential to drive the return of foreign funds into the Indonesian stock market?

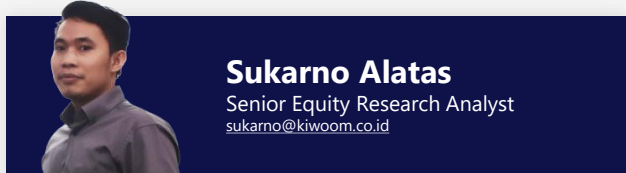
***It could, but we do not view the results of the MSCI or FTSE review as a factor that will automatically reverse foreign fund flows.***

If the review results are positive, the main impact will be improving the risk perception of Indonesia and reducing the reasons for global investors to continue being underweight on Indonesia, for example by *changing a Negative Outlook to a Stable Outlook.* This could be an initial trigger for the entry of foreign funds.

**However, to generate sustainable inflows, investors will still pay attention to larger factors, namely Rupiah stability, government fiscal discipline, economic policy direction, governance quality, and future regulatory certainty.**

In other words, MSCI and FTSE can be important short-term catalysts, but *the sustainability of foreign fund flows will still be determined by Indonesia's ability to rebuild investor confidence in policy consistency, governance, and investment competitiveness.* If these factors improve, Indonesia actually has valuations that are quite attractive to be reconsidered by global investors.

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