KIWOOM RESEARCH

INDONESIA'S INVESTMENT PARADOX

Attractive Market, Rising Global Governance Expectations

Reading S&P Dow Jones Indices' constructive investment evidence together with its 2026/2027 country-classification watchlist and August 2026 IWF clarification - and what it means alongside MSCI.

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CORE THESIS
Indonesia remains a strategic market with strong long-term return potential and attractive fundamentals. The challenge is now tangible: ownership concentration, true free float, liquidity and investor access must become credible in practice - not only improved on paper.

Sean Freer, Director, Product Management, Global Exchange Indices, S&P Dow Jones Indices - Fortune Investment Forum 2026. Photo supplied by author.

Source: S&P DJI Fortune Conference deck supplied by Sean Freer; S&P DJI public classification and IWF materials; MSCI public announcements. Cover photo supplied by author.

1. Executive Summary

- **Two messages, one coherent view:** S&P DJI presents Indonesia as a strategic market with attractive long-term return and valuation characteristics, while separately scrutinizing whether the market is transparent, accessible and replicable enough for global benchmarks.
- **The full deck strengthens the positive investment case:** as of June 30, 2026, the S&P Indonesia LargeMidCap Index was priced at just above 10x trailing earnings, offered an indicative dividend yield above 6%, and showed price-to-book and price-to-sales ratios below long-term averages.
- Longer holding periods improved the historical frequency of positive returns; the dividend pool almost quadrupled over 11 years; ESG tilting improved portfolio ESG scores; and three S&P/IDX co-branded indices were launched in 2025.
- **Active allocation requires nuance:** Sean's fund table is a selected, non-exhaustive snapshot of larger SICAV/offshore funds available for sale in Asia and well-known brands. Across the wider universe, many funds are overweight Indonesia and many are underweight, but the selected sample confirms that several large funds and global brands are meaningfully overweight.
- The IWF clarification is the most concrete S&P DJI action to date: for companies on IDX's High Shareholder Concentration list, shares owned in aggregate by a limited number of shareholders are treated as strategic for IWF calculations, effective with the September 2026 reconstitution.
- S&P DJI has not published a numeric pass/fail KPI set for Indonesia. Its analytical team confirmed that it is monitoring the situation, pointed to the IWF clarification as the current formal response, and said further changes would be communicated through its usual channels.
- MSCI remains the more immediate test because restrictive index treatment is already in force and the November 2026 Index Review is the next checkpoint.

CENTRAL INTERPRETATION

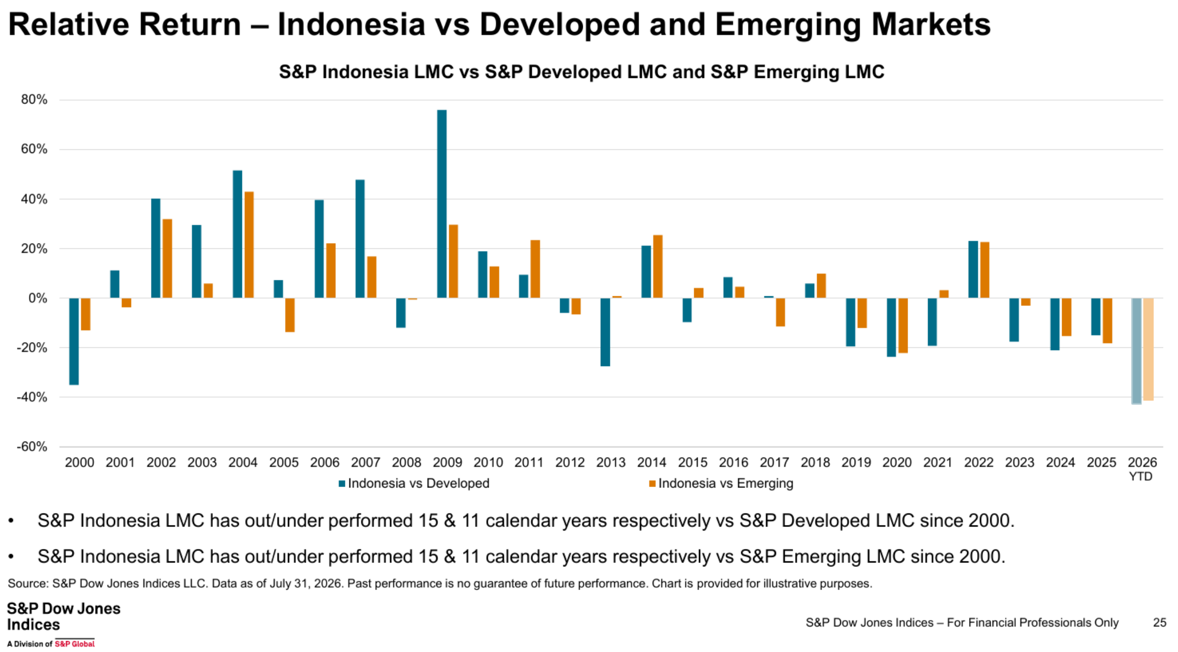
Indonesia's problem is not a lack of investment appeal. It is an institutional credibility gap between the quality of the opportunity and the quality of the market structure supporting that opportunity.

S&P DJI vs MSCI - where they meet

Dimension	S&P DJI	MSCI
Current position	Emerging Market; 2026/2027 watchlist; IWF clarification announced for Sept. 21	Emerging Market, with restrictive index treatment already in force
Core concern	Shareholding concentration, transparency, liquidity and benchmark replicability	Shareholder transparency, free-float credibility, coordinated trading and investability
Evidence signal	Observed ownership concentration can directly alter IWF treatment; monitoring continues	Consistent implementation and sustained market effect are required
Near-term clock	September 2026 reconstitution; 2027 classification process	November 2026 Index Review checkpoint

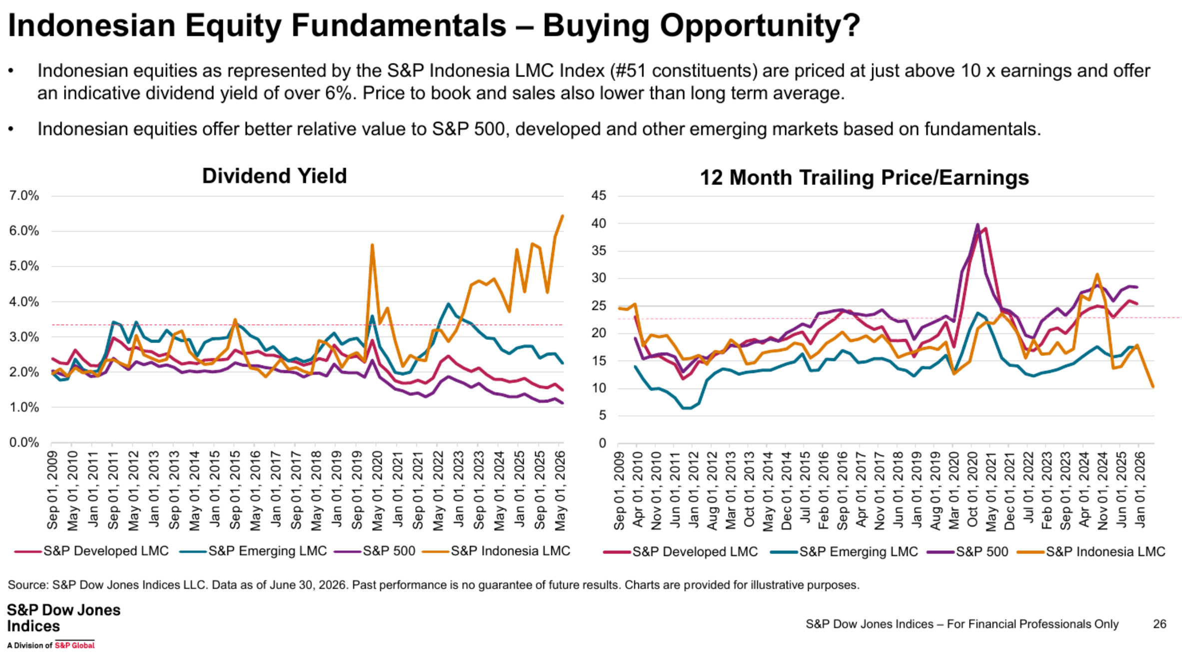
2. Full-Deck Additions: Relative Performance & Valuation

The added slides make the investment case more balanced and more complete. Indonesia has not consistently outperformed every year, but it has shown repeated periods of relative strength while its mid-2026 fundamentals suggested attractive relative value.



S&P DJI slide 25: S&P Indonesia LargeMidCap relative annual returns vs Developed and Emerging LargeMidCap indices. Data as of July 31, 2026.

Since 2000, the index outperformed and underperformed each comparator in 15 and 11 calendar years, respectively. The message is cyclical opportunity, not uninterrupted dominance.



S&P DJI slide 26: Indonesian equity fundamentals. Data as of June 30, 2026.

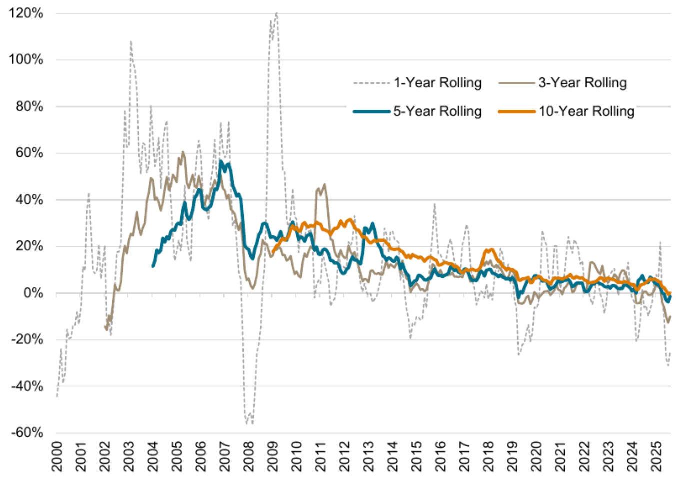
At just above 10x trailing earnings and with an indicative dividend yield above 6%, the S&P Indonesia LargeMidCap snapshot showed better relative value than the S&P 500, developed and other emerging markets. This is a valuation observation, not a guarantee of re-rating.

3. Longer Horizons Improve the Historical Probability of Success

Sean's S&P Indonesia LargeMidCap analysis distinguishes short-term volatility from long-term investment viability. Based on rolling IDR total returns, the frequency of positive periods increased materially as the holding window lengthened.

Higher Chance of Success for Longer-Term Investors

Rolling Annualized Total Return of S&P Indonesia LargeMidCap



Measurement	1-Year	3-Year	5-Year	10-Year
Counted Periods	308	284	260	200
Number of Periods > 0%	220	253	254	199
Percent of periods > 0%	71%	89%	98%	99%
Maximum Possible Return (%)	121.3%	60.7%	56.8%	31.67%
Minimum Possible Return (%)	-56.6%	-15.9%	-3.9%	-0.5%
Average Return (%)	15.6%	15.0%	15.1%	14.0%
Median Return (%)	10.7%	9.6%	10.1%	12.0%
Absolute Deviation (%)	177.9%	76.5%	60.6%	32.1%

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2026. Data is based on rolling returns using 12-, 36-, 60- and 120-month periods using month-end index levels in IDR. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes.

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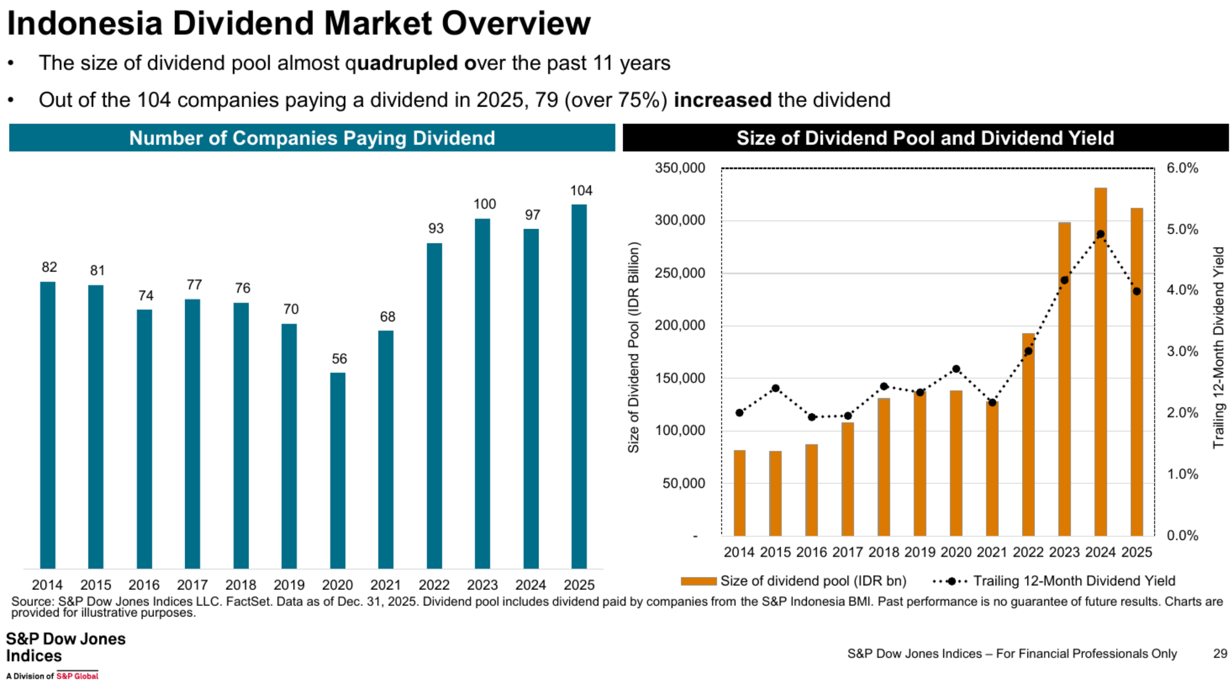
S&P DJI slide 24: rolling annualized total return of the S&P Indonesia LargeMidCap Index. Data as of July 31, 2026.

Holding period	Positive periods	Average annualized return	Minimum observed return
1 year	71%	15.6%	-56.6%
3 years	89%	15.0%	-15.9%
5 years	98%	15.1%	-3.9%
10 years	99%	14.0%	-0.5%

Interpretation: the historical downside range narrowed sharply over longer windows, while average returns remained broadly around 14-16%. Past performance does not guarantee future results, but the data support a structurally constructive long-term view.

4. Dividend Depth Has Improved

Indonesia's dividend pool provides a second pillar beyond price appreciation. The S&P DJI deck states that the pool almost quadrupled over the past 11 years.



S&P DJI slide 29: Indonesia dividend market overview. Dividend pool includes S&P Indonesia BMI companies. Data as of Dec. 31, 2025.

KEY EVIDENCE
In 2025, 104 companies paid dividends and 79 of them - more than 75% - increased their dividend.

This broadening matters for global investors because it gives the Indonesia story an income component and signals a deeper pool of companies returning cash to shareholders. The rise has not been linear, but the long-term expansion is clear.

5. ESG Tilting: Better Scores Without a Clear Performance Sacrifice

The S&P/IDX Indonesia ESG Tilted strategy improved the weighted average ESG score versus its parent universe and generated positive excess return over several reported horizons, although not over every horizon.

ESG Tilting In Indonesia Has Improved Performance and ESG Scores

Performance and Risk Profile

	S&P/IDX Indonesia ESG Tilted TR	S&P Indonesia LargeMid Cap TR	RELATIVE
Horizon	**Annualized Return**		**Excess Return**
3 Mo	-5.08%	-10.18%	5.11%
1y	-22.19%	-25.03%	2.83%
3y	-10.27%	-9.97%	-0.30%
5y	0.13%	-1.26%	1.39%
Back-test	-2.06%	-2.96%	0.89%
Horizon	**Annualized Volatility**		**Tracking Error**
3y	20.0%	20.8%	5.83%
5y	17.5%	18.0%	5.02%
Back-test	18.8%	19.0%	4.27%
Horizon	**Risk-Adjusted Return**		**Information Ratio**
3y	-0.51	-0.48	-0.05
5y	0.01	-0.07	0.28
Back-test	-0.11	-0.16	0.21

Weighted Average ESG Score

Reference Date	S&P/IDX Indonesia ESG Tilted	Universe Index	Difference
March 31, 2019	33.69	31.99	1.69
March 31, 2020	34.45	32.96	1.50
March 31, 2021	40.00	38.39	1.61
March 31, 2022	41.00	39.21	1.80
March 31, 2023	47.95	46.18	1.77
March 31, 2024	44.69	42.44	2.24
March 31, 2025	48.95	45.76	3.19
July 2026 (live index)	***52.26***	***46.67***	***5.59***

- S&P/IDX Indonesia ESG Tilted (IDR) has outperformed 63.5% of exhibited 3-year periods and 68% of 5-year periods.
- ESG tilting has resulted in a better portfolio ESG score versus the index parent
- The weighted average ESG scores improved in all periods

S&P Dow Jones Indices LLC. Data as of July 31, 2026. Index performance based on total return in IDR. Inception date of back-tested index is May 1, 2019. The S&P/IDX Indonesia ESG Tilted was launched on Oct. 6, 2025. All data prior to such date is back-tested hypothetical data. Past performance is no guarantee of future results. Tables are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

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S&P DJI slide 30: ESG performance, risk profile and weighted average ESG scores. Data as of July 31, 2026.

- **Relative returns:** +5.11% over 3 months, +2.83% over 1 year, -0.30% annualized over 3 years, +1.39% annualized over 5 years and +0.89% for the back-tested horizon.
- **ESG score:** the tilted index rose from 33.69 in March 2019 to 52.26 in July 2026, versus 46.67 for the universe at the latest observation.
- **Important caveat:** data before the index launch on Oct. 6, 2025 are back-tested and hypothetical.

6. Product Ecosystem: S&P DJI Is Expanding, Not Abandoning, Indonesia

Three S&P/IDX co-branded indices were launched in 2025. Product development and country classification answer different questions: new indices confirm investment and commercial relevance, while classification work tests whether the underlying market remains transparent, accessible and replicable.

S&P/IDX Co-Branded Indices – Launched in 2025

Criteria	S&P/IDX Indonesia ESG Tilted Index	S&P/IDX Dividend Opportunities Index	S&P/IDX Indonesia Shariah High Dividend Index
Universe	S&P Indonesia LargeMidCap Index (#51)	S&P Indonesia LargeMidCap Index (#51)	S&P Indonesia Shariah BMI (#62)
Eligibility	**Listing**: Stocks must be domiciled and listed in Indonesia Eligible in above parent index. **Screening**: -UNGC Exclusions -Controversies -Product Involvement Exclusions - % of revenue *(Controversial Weapons, Small Arms, Military Contracting, Coal, Oil Sands, Tobacco)*	**Listing**: Stocks must be domiciled and listed in Indonesia **GICS Classification:** Exclude stocks classified as Mortgage Real Estate Investment Trusts (GICS Code: 402040) or Equity Real Estate Investment Trusts (GICS Code: 6010) **Liquidity**: Six-month median daily value traded (MDVT) >= IDR 1 billion **Profitability**: LTM EPS > 0 **Payout Ratio**: DPS/EPS < 1	**Listing**: Stocks must be domiciled and listed in Indonesia **GICS Classification:** Exclude stocks classified as Mortgage Real Estate Investment Trusts (GICS Code: 402040) or Equity Real Estate Investment Trusts (GICS Code: 6010) **Liquidity**: Six-month median daily value traded (MDVT) >= IDR 1 billion **Size**: FMC > IDR 1 trillion **ISS (Indonesia Sharia Stock)**: Must be a member of the ISSI as of reference date
Selection / Tilting	ESG Tilting – through tilting groups based on GICS sectors (Moderate tilt 0.5) Weight of each individual stock cannot exceed 5 x its weight in the parent index.	1. Rank eligible stocks by trailing 12-month dividend yield 2. Select the 30 highest-yielding stocks for index inclusion. If there are fewer than 30 stocks in the index universe, select all eligible stocks and the index will have fewer than 30 stocks.	1. Rank eligible stocks by indicated annual dividend yield 2. Select the 30 highest-yielding stocks for index inclusion. If there are fewer than 30 stocks in the index universe, select all eligible stocks and the index will have fewer than 30 stocks.
Weighting	Float Market Cap (FMC) Weighted	FMC*Trailing 12-month Dividend Yield	FMC*Indicative annualized dividend yield
Constituent Capping	Constituent Capping at 30% of index weight Sum of top 5 stocks capped at 65%	15% capping on single constituent	15% capping on single constituent
Rebalancing	Annual**,** Effective after close of last business day of April.	Annual, effective date after close of last business day of January	Semiannual, effective date after close of last business day of January and July
No. of Constituents	38	30	30
First Value Date	April 30, 2019	Jan. 31, 2011	Jan. 31, 2011
Launch Date	Oct. 06, 2025	Oct. 20, 2025	Oct. 24, 2025

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2026. Table is provided for illustrative purposes.

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S&P DJI slide 28: S&P/IDX co-branded indices launched in 2025. Data as of July 31, 2026.

Index	Launch date	Constituents	Core design
S&P/IDX Indonesia ESG Tilted	Oct. 6, 2025	38	ESG screens and sector tilting; float market-cap weighted
S&P/IDX Dividend Opportunities	Oct. 20, 2025	30	Dividend yield selection; profitability and payout filters
S&P/IDX Indonesia Shariah High Dividend	Oct. 24, 2025	30	Shariah eligibility plus dividend yield selection

7. Active Global Capital: Overweights Are Real, but the Sample Is Illustrative

Snapshot of Active Asset Managers Allocation to Indonesia

Asia Equity

Fund Name	AUM $USD Mill	Domicile	Invested Indonesia	MSCI AC Asia Ex Japan	S&P Pan Asian Ex Japan
Baillie Gifford Pacific	5,827	United Kingdom	**0.9%**	0.50%	0.70%
FSSA Asian Eq Plus	4,408	Luxembourg	**2.8%**	0.50%	0.70%
Stewart Inv APAC Leaders	3,796	United Kingdom	**1.8%**	0.50%	0.70%
Invesco Asia Equity	3,667	Switzerland	**4.3%**	0.50%	0.70%
Fidelity Asia	3,570	Luxembourg	**0.9%**	0.50%	0.70%
Schroder ISF Asian Opportunities	3,157	Luxembourg	0.5%	0.50%	0.70%
FIL Asian Special Sits	3,111	Luxembourg	**0.8%**	0.50%	0.70%
Schroder ISF Asian Growth	2,550	Singapore	0.5%	0.50%	0.70%
JPMorgan SAR Asian	1,813	Singapore	0.0%	0.50%	0.70%
M&G Asian	1,333	Luxembourg	**2.3%**	0.50%	0.70%
AB Asia Ex Japan Equity	481	Luxembourg	**2.0%**	0.50%	0.70%
BNP Paribas Asia Ex-Jpn Eq	251	Luxembourg	0.0%	0.50%	0.70%

ASEAN Equity

Fund Name	AUM $USD Mill	Domicile	Invested Indonesia	MSCI ASEAN	S&P ASEAN BMI
Fidelity ASEAN	669	Luxembourg	**15.8%**	6.4%	10.9%
JPMorgan ASEAN	643	Luxembourg	6.4%	6.4%	10.9%
Barings ASEAN Frontiers	333.4	Ireland	**13.6%**	6.4%	10.9%
Eastspring Asean Equity	124.5	Singapore	4.2%	6.4%	10.9%
Manulife GF ASEAN Equity	76.94	Luxembourg	**12.3%**	6.4%	10.9%
United ASEAN	33	Singapore	**7.9%**	6.4%	10.9%
FSSA ASEAN All Cap	28.7	Ireland	**14.1%**	6.4%	10.9%

Asset managers offer a wide range of equity strategies for retail and institutions and are seen as professional investors.

- Global, Emerging Market, Asia ex Japan, ASEAN, Asia-Pacific etc are common allocations that may have some Indonesia exposure/allocation.
- Some of the larger active funds have moved to an overweight position in Indonesia relative to benchmark.
- These funds typically charge 1.5% management fees per annum and have entry or sell fees depending on where/how they are purchased.
- The Asia ex Japan selection of #12 funds has ~$560 million invested in Indonesian companies. The ASEAN selection #7 has $213 million invested.

Source: S&P Dow Jones Indices LLC, Morningstar, Fund factsheets. Data as of June 30, 2026. Past performance is no guarantee of future results. Tables are provided for illustrative purposes.

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S&P DJI slide 27: selected active asset-manager allocations. Sources on slide: S&P DJI, Morningstar and fund factsheets. Data as of June 30, 2026.

- **Asia ex-Japan selection:** 8 of the 12 funds held Indonesia above both the 0.50% MSCI AC Asia ex Japan and 0.70% S&P Pan Asia ex Japan comparator weights. The selected funds had about USD 560mn invested in Indonesian companies.
- **ASEAN selection:** 4 of the 7 funds were above both the 6.4% MSCI ASEAN and 10.9% S&P ASEAN BMI weights; one more was above MSCI ASEAN but below the S&P comparator. The selection had about USD 213mn invested in Indonesia.
- **Notable corrections to the prior draft:** the fund name is Invesco Asia Equity (4.3% Indonesia weight), and Barings ASEAN Frontiers held 13.6%.

Read-through: the selected data demonstrate that large active managers can still find company- and sector-level opportunities in Indonesia. They should not be treated as a census of all global mutual funds or as proof that the industry is uniformly overweight.

8. From Monitoring to Methodology: What the IWF Clarification Changes

S&P DJI's Aug. 12, 2026 announcement clarifies a Regional Variation in its Float Adjustment Methodology. For companies included in IDX's High Shareholder Concentration (HSC) list, all shares owned in aggregate by a limited number of shareholders are considered strategic for Investable Weight Factor calculations.

IN PLAIN MARKET TERMS

If a stock looks widely tradable based on its headline public float, but much of that float is actually concentrated among a small group of holders, S&P DJI will treat those concentrated shares as strategic rather than investable float. A lower IWF can reduce the stock weight available to float-adjusted indices.

What this means

- **It is targeted:** the clarification applies to companies on IDX's HSC list, not automatically to every Indonesian issuer.
- **It is operational:** the treatment is scheduled for the September 2026 reconstitution, effective before market open on Monday, Sept. 21, 2026.
- **It converts ownership concentration into index math:** concentration is not merely noted as a governance concern; it can change the investable weight used by S&P DJI.
- It is not an automatic country downgrade or a declaration that Special Measures have been imposed across Indonesia.

Why Indonesia remains on watch

- **Ownership transparency:** can investors identify who truly controls tradable supply?
- **True free float:** are shares classified as public float genuinely dispersed and investable?
- **Institutional liquidity:** can benchmark exposure be executed at scale without disproportionate price impact?
- **Accessibility and replicability:** can global investors implement the index in practice?
- **Consistency:** do disclosure and surveillance reforms work across issuers and persist over time?

Source: S&P Dow Jones Indices, Float Adjustment Methodology Clarification, Aug. 12, 2026.

9. MSCI: The More Immediate Test

MSCI has already moved beyond monitoring into restrictive index treatment. For Indonesian securities, it continues to freeze increases in Foreign Inclusion Factors and Number of Shares, does not implement additions to the MSCI Investable Market Indexes, and blocks upward migrations across size segments. It also continues to delete securities identified under Indonesia's HSC framework and may use 1% shareholder disclosure data to adjust free-float estimates.

MSCI acknowledged reforms announced by OJK, IDX and KSEI, but its public position emphasizes consistent implementation and sustained effect. If sufficient progress is not evident by the November 2026 Index Review, it may consider broader treatment options, potentially including consultation on reclassification from Emerging to Frontier Market.

WHY THE S&P DJI + MSCI COMBINATION MATTERS

When two global index providers independently focus on similar transparency and investability concerns, the issue becomes harder to frame as a methodology-specific dispute. It increasingly becomes a global investor-confidence question.

Date / window	Institution	What matters
Sept. 21, 2026	S&P DJI	Regional IWF clarification takes effect with the September reconstitution.
Nov. 2026	MSCI	Critical checkpoint; insufficient progress could trigger broader index-treatment options.
2027 review cycle	S&P DJI	Indonesia remains on the classification watchlist; transparency, liquidity, accessibility and the need for any further measures remain under review.

The methodologies and timelines are not identical. Still, credible progress recognized by MSCI would strengthen Indonesia's evidence base ahead of S&P DJI's 2027 assessment; escalation by MSCI would reinforce the perception of a systemic issue.

10. S&P DJI's Current Formal Position: Monitoring, Methodology & the Evidence Gap

In response to Kiwoom Research's questions about measurable KPIs and whether S&P DJI prioritizes regulatory changes or real investor experience, S&P DJI Client Services / analytical staff from the Index Governance and Market Classification team confirmed that it is aware of and monitoring the situation. For now, it referred to the announced IWF Regional Variations clarification; any further changes will be communicated through S&P DJI's usual channels.

WHAT THE ANSWER DOES - AND DOES NOT - ESTABLISH
S&P DJI did not provide a numeric scorecard, a pass/fail threshold, or confirmation that rule changes alone will be sufficient. The only concrete formal development cited is a methodology clarification that responds to observed ownership concentration. Therefore, the safest interpretation is that Indonesia remains under observation and outcomes will be communicated through formal index channels.

Kiwoom analytical framework - not official S&P DJI KPIs

Evidence area	Observable progress	Why it matters
Ownership transparency	Timely, granular and consistently usable shareholder / beneficial-ownership disclosure	Improves confidence in free-float classification
Free-float credibility	Smaller gap between disclosed float, index-provider treatment and genuinely tradable supply	Reduces benchmark-replication risk
HSC effectiveness	Concentrated ownership is consistently identified and remediation changes the investable holder base	Shows surveillance has practical effect
Institutional liquidity	Better executable depth and lower market impact in index constituents	Makes headline liquidity investable at scale
Disclosure quality	Reliable English-language and market-relevant disclosure with consistent timing	Reduces information asymmetry
Investor experience	Improving feedback from international institutions on access, transparency and settlement	Tests whether reforms work in practice
Policy consistency	Rules remain predictable and effective across multiple review cycles	Converts announcements into credibility

Kiwoom Research conclusion

The core S&P DJI message is not that Indonesia is uninvestable. It is that the investment proposition and the market architecture are being judged on separate tracks. On the opportunity track, Indonesia remains strategic: long-horizon returns, valuation, dividend depth, ESG development, product launches and active-manager overweights all support the case. On the market-structure track, ownership concentration and true free float are serious enough to affect IWF calculations, while the broader country assessment remains under monitoring.

Indonesia does not need to manufacture attractiveness. It needs to make ownership data, tradable float, liquidity and investor access credible enough for global capital to participate with confidence.

Source: Sean Freer correspondence to the author; S&P DJI Fortune Conference deck, slides 23-30; S&P DJI Float Adjustment Methodology Clarification (Aug. 12, 2026); S&P DJI and MSCI public classification materials.