

# AI-01908 MSCI USA IMI vs FTEC Weight

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How does MSCI (Morgan Stanley Capital International) allocate funds in their msci tech index?

Good question 👍. Let's break down how MSCI allocates funds in its Technology Index (for example, the MSCI ACWI Information Technology Index or MSCI USA IMI Information Technology Index). (Investible Market Index)

MSCI doesn't directly "manage" a fund — they design and maintain the index. Asset managers (like BlackRock for iShares ETFs, Vanguard, or State Street for SPDRs) then create funds that track these MSCI indexes.

Here's how MSCI allocates and weights companies in a technology index:

## 1. Define the Universe

- Starts from a parent index (e.g., MSCI ACWI or MSCI USA IMI), which includes large-, mid-, and small-cap companies.
- Only companies classified under the Information Technology sector (per the Global Industry Classification Standard – GICS) are considered.
  - Industries include:
    - Software
    - Semiconductors
    - IT Services
    - Tech Hardware, Storage, and Peripherals

- Electronic Equipment, Instruments & Components

## 2. Inclusion Rules

- Companies must meet free float-adjusted market capitalization and liquidity thresholds.
- Only shares readily available to investors are counted (so large insider holdings are excluded).
- MSCI applies foreign ownership limits if relevant.

## 3. Weighting Method

- Free Float-Adjusted Market Capitalization Weighting
  - Larger companies with higher free float get a bigger share of the index.
  - Example: Apple and Microsoft often hold 30–40% combined in MSCI's U.S. Tech indexes.
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- No discretionary tilting — it's purely rule-based.
- Some specialized MSCI tech indexes may cap weights (e.g., 25/50 rule) so no single stock exceeds 25%, and top 5 stocks together don't exceed 50%.

## 4. Rebalancing Schedule

- Quarterly review (Feb, May, Aug, Nov).
- Semi-annual comprehensive rebalancing in May and November (more significant changes).
- Adjustments reflect:
  - Market cap changes
  - New IPOs
  - Companies moving in/out of the Tech sector

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## 5. Final Allocation

- Example (as of 2024 for MSCI USA IMI Information Technology Index):
  - Apple ~22%
  - Microsoft ~21%
  - NVIDIA ~14%
  - Broadcom, Adobe, Salesforce ~2–4% each
  - Dozens of smaller firms make up the rest

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✓ Summary:

MSCI allocates its Technology Index by including companies classified as “Information Technology” under GICS, weighting them by free float-adjusted market capitalization, and rebalancing quarterly. This means big names like Apple, Microsoft, and NVIDIA dominate the index, while smaller firms get proportionally smaller slices.

⚡ If you’d like, I can pull the latest 2025 top 20 allocations of the MSCI Tech Index so you can see the exact percentages. Want me to do that?

Here’s a breakdown of how MSCI allocates companies in its Technology sector index, along with the latest top-holdings weights from the MSCI ACWI Information Technology Index and the MSCI USA IMI Information Technology 25/50 Index:



## MSCI Tech Index Allocation Methodology

### 1. Universe & Inclusion Criteria

- MSCI begins with a parent index such as MSCI ACWI (global) or MSCI USA IMI (U.S.) and selects all companies classified under the GICS® Information Technology sector (e.g. semiconductors, IT hardware, software, etc.) .

- Companies must meet liquidity and free-float adjusted market cap thresholds. Only publicly tradable shares are considered. Foreign ownership limits may apply.
- 2.
  3. Weighting Scheme
    - Constituents are weighted by free-float adjusted market cap, giving more weight to larger, liquid securities.
    - For the MSCI USA IMI Information Technology 25/50 Index, rules limit any one stock to  $\leq 25\%$  weight and top 5 to  $\leq 50\%$  collectively, to meet U.S. RIC diversification requirements .
  - 4.
  5. Rebalancing Frequency
    - Conducted quarterly reviews (Feb, May, Aug, Nov), with semi-annual full rebalancings to account for changes in market caps, liquidity, IPOs, and sector reclassifications.
  - 6.
  7. Sub-Industry & Region Exposure
    - Within the global index, sub-industry breakdown includes semiconductors (~34.6%), systems software (~20.8%), hardware (~17.7%), applications (~10.5%), and others .
    - Country exposure largely U.S. (~81.8%), Taiwan (~6.1%) and others from DM/EM markets .
  - 8.

## **Latest Allocation Snapshot as of End-June 2025**

**MSCI ACWI Information Technology Index (Global, 306 constituents)**

Top 10 holdings account for ~64.8% of the total index weight :

Company	Country	Weight (%)
NVIDIA	US	17.68
Microsoft Corp.	US	16.11
Apple Inc.	US	14.13
Broadcom Inc.	US	5.65
Taiwan Semiconductor Mfg	TW	4.10
Oracle Corp.	US	1.69
SAP SE	DE	1.45
ASML Holding	NL	1.44
Palantir Technologies	US	1.34
Cisco Systems	US	1.27
Total Top-10		64.84

### MSCI USA IMI Information Technology 25/50 Index

Top holdings as of latest available data (March 2023 latest full report; more recent ETF holdings reflect similar weights) :

- Apple ~22.8% (Microsoft ~18.1%, NVIDIA ~6.1%)
- Other US names like Visa, Mastercard, Broadcom, Cisco, Salesforce, Accenture, and Adobe fill remaining slots.
- Wider data: ETF Fidelity FTEC (which tracks this index) shows as of mid-2025: Microsoft ~15.1%, Apple ~13.1%, NVIDIA ~17.0%, Broadcom ~4.9% in ETF holdings .

## Summary

- Global (ACWI Tech): Pure free-float market cap weighting → NVIDIA, Microsoft, Apple dominate (~17.7%, 16.1%, 14.1%).
- US-only (25/50 cap): Still cap-weighted but with limits → Apple and Microsoft together form ~40–42%, NVIDIA around ~6–17% depending on timing and ETF tracking .

Would you like the full top-20 holdings list or a breakdown of sub-industry exposure from the U.S. index? I can pull or compute that too.

Here's a clear timeline-style history of MSCI so you can see how it evolved:

## **History of MSCI**

### **1960s–1970s: Origins**

- 1969 – Capital International created the first international stock market indexes to help institutional investors compare markets globally.
- 1986 – Morgan Stanley acquired the rights to Capital International's index business, renaming it Morgan Stanley Capital International (MSCI).

### **1980s–1990s: Growth of Global Benchmarks**

- 1986–1990s – MSCI became the standard for measuring global equity portfolio performance, widely used by pension funds and asset managers.
- 1998 – Introduction of MSCI Emerging Markets Index, providing benchmark coverage beyond developed markets.
- 1999 – Launch of MSCI Barra Style Indexes for growth and value investing.

### **2000s: Expansion & Independence**

- 2004 – MSCI merged with Barra, a risk analytics firm, creating MSCI Barra.
- 2007 – MSCI was spun off from Morgan Stanley via an IPO, becoming an independent, publicly traded company (NYSE: MSCI).
- 2009 – Acquired RiskMetrics Group, adding ESG research and risk analytics.

### **2010s: Leadership in ESG & Factors**

- 2010 – Acquired Measurisk, strengthening risk management tools.
- 2010s – Expanded into factor-based indexes (e.g., minimum volatility, quality, value).
- 2014 – MSCI reclassified Qatar and UAE from frontier to emerging markets, reflecting global market evolution.

- 2018 – Included China A-shares (Shanghai & Shenzhen stocks) into its Emerging Markets Index, a landmark decision.

## 2020s: Dominance in Indexing & ESG

- 2020 – ESG and climate indexes grew in demand; MSCI became a leading provider of sustainability metrics.
- 2021–2025 – MSCI expanded its offerings in thematic indexes (like technology, climate transition, and innovation) and advanced its ESG scoring and climate analytics.
- Today – MSCI indexes are tracked by over \$13 trillion in assets globally, making them one of the most influential benchmarks in investing.

## Key Points

- MSCI started as an international index provider under Morgan Stanley.
- It's now an independent company (MSCI Inc.), providing indexes, ESG ratings, and risk analytics.
- Known for MSCI World, MSCI Emerging Markets, and MSCI ACWI indexes — benchmarks for trillions in ETFs, mutual funds, and institutional portfolios.

⚡ Do you want me to also create a visual timeline infographic of MSCI's history so it's easier to digest?

How does MSCI make money?

Great question 👍 — because unlike asset managers (like Vanguard or BlackRock), MSCI doesn't manage money. It makes money by selling data, indexes, and analytics that investment firms use.

Here's a breakdown of how MSCI makes money today:

## MSCI's Revenue Streams

### 1. Index Licensing Fees (≈ 60% of revenue)

- MSCI creates and maintains indexes like the MSCI World, MSCI ACWI, and sector indexes (like the USA IMI Technology).

- Asset managers (e.g., BlackRock iShares, Vanguard, State Street) pay MSCI to license these indexes for their ETFs and mutual funds.
- MSCI charges fees typically based on assets under management (AUM) that track its indexes.
  - Example: If BlackRock runs an ETF with \$100 billion that tracks an MSCI index, they pay MSCI an annual fee (usually in basis points).
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👉 This is why ETFs like iShares MSCI Emerging Markets ETF (EEM) generate big revenue for MSCI.

## 2. Analytics & Risk Management Tools (≈ 25% of revenue)

- Provides portfolio analytics, risk modeling, and performance attribution tools to institutional investors.
- This stems from MSCI's acquisition of Barra (risk analytics) and RiskMetrics.
- Asset managers, hedge funds, and pension funds subscribe to use these platforms.

## 3. ESG & Climate Products (≈ 10–15% of revenue)

- MSCI is a global leader in environmental, social, and governance (ESG) ratings.
- They sell ESG scores and climate risk analytics to:
  - Asset managers for ESG funds
  - Banks for credit risk assessments
  - Corporations needing ESG benchmarking

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## 4. Private Asset Data & Real Estate Analytics (≈ 5% of revenue)

- Offers data on private equity, infrastructure, and real estate through products like MSCI Real Assets.
- Revenue comes from data subscriptions and analytics licenses.



## Revenue Model in Practice

- Recurring Subscription Model: Most clients pay annual subscriptions or licensing fees — providing MSCI with predictable recurring revenue.
- High Margins: Because it sells data/IP rather than physical products, MSCI has profit margins around 40–50%.
- Global Reach: As of 2025, over \$13 trillion in assets is benchmarked to MSCI indexes.

✓ In summary:

MSCI doesn't run funds — it's more like a "toll booth" for the investment world. Every time money flows into ETFs, mutual funds, or portfolios tied to an MSCI index, MSCI collects fees. On top of that, it sells risk analytics, ESG data, and private market insights via subscription.

⚡ Want me to show you how much MSCI makes from one popular ETF like iShares MSCI Emerging Markets (EEM) as a real-world example of their licensing revenue?