



“Russian Tencent” and the ongoing transformation of MSCI Russia 10/40 index

Earlier this week, MSCI announced that [Mail.ru](#), the “Russian Tencent”, is to be included in the MSCI Russia indices starting with effect from 30 November. We expect the company to have a weight of 3.5% in the MSCI Russia 10/40 index. This marks the continuation of the trend in which Russian equity indices are becoming more diverse.

Operating in the communication, gaming and entertainment segments, Mail.ru is the second high-tech company to be included in the MSCI Russia indices. With the inclusion of Mail.ru the Russian index will become overweight in communication services relative to the EM index.

In recent years, the Russian equity market has had to overcome the impacts from events such as major oil price swings, investor fears over sanctions and the effect on the economy arising from the Covid-19 pandemic. Naturally, the market has had to adapt and stronger companies with greater potential have replaced weaker candidates in the index.

One of the major changes we are seeing is high-tech companies making their way into the index. In September the so-called “[Russian Google](#)”, Yandex, was included in the MSCI Russia 10/40 index with a weight close to 10%. Now Mail.ru has followed suit. Another high-tech candidate for inclusion is Tinkoff, the largest purely online bank in Russia and in the world. Furthermore, the “Russian Amazon”, Ozon, is having an IPO in November, which could make it another valid candidate for inclusion in the index at some point later.

Another major shift is that the dominance of the oil sector in the index has started to wane. At the end of October, the materials sector rose to a similar weight as that of the energy sector, 31% vs. 32%, respectively, in USD terms[1]. Additionally, about 9% of the MSCI Russia

10/40 index is now represented by gold producers, whereas just three years ago there were none.

(Please see the full version of the article with graphs in the attached pdf file.)

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[1] As of 30 November 2020 MMK will be excluded from the MSCI Russia 10/40 index materials sector. At the moment MMK's weight is 1.7%.

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