

***Market Consultation
Concinnity Conscious Companies Index (KRMA^{TR}/KRMA^{PR})
Change of Methodology***



2 February 2024

Content of the Market Consultation

The Index Owner (Concinnity Advisors, LP) has decided to conduct a Market Consultation with regard to changing its Index Methodology of the following Indices (the ‘Affected Indices’):

NAME	RIC	ISIN
Concinnity Conscious Companies PR Index	.KRMAPR	DE000SLA1938
Concinnity Conscious Companies GTR Index	.KRMATR	DE000SLA1946

Rationale for Market Consultation

The Concinnity Conscious Companies Index is designed to provide exposure to U.S.-listed companies that the Index Owner believes appear to achieve financial performance in a sustainable and responsible manner, as measured by their ability to achieve positive outcomes that are consistent with a Multi-stakeholder Operating System (MsOS).

The Index was launched in 2015 as an equal weight portfolio. Beginning in 2018, the continued outperformance of a select group of mega cap stocks produced severe top-heaviness in the benchmark, the Solactive U.S. Large Cap Index (comparable to the S&P 500 Index), with the largest companies eventually becoming approximately 7% of the benchmark. This subsequently resulted in significant stock-specific risk due to the equal weighting of portfolio names. In 2020, the Concinnity Conscious Companies Index implemented an adjustment to mega cap names in the portfolio to mitigate this stock-specific risk. However, the top-heaviness has continued to grow and this adjustment still leaves the Index with substantial mega cap underweights.

The Index Owner proposes a more comprehensive adjustment for this weighting problem that will reduce any large stock-specific risk from companies in the portfolio.

The Index Owner proposes to adjust the weighting mechanism described in Section 2.1 and 2.2 from *equal weighted with adjustments for size* to a weighting scheme that evenly spreads overweights throughout the fund. Each stock will receive the same active overweight, while active underweights will exclusively be stocks not included in the Index. In this “equal active overweights” scheme, each constituent’s weighting begins by receiving its assigned weight in the benchmark, the Solactive U.S. Large Cap Index. The remainder (the remaining weight of all stocks within the benchmark that are not included in the Index) is then equally distributed across all stocks in the Index.

The proposed adjustment is a more comprehensive solution and is far more adaptive to market cap fluctuations within the benchmark, especially considering that the Indices will be rebalanced quarterly to reflect these market cap fluctuations within the benchmark.

Overall, the proposed adjustment to the weighting methodology of the Affected Indices is a risk-reducing measure that will significantly improve benchmark tracking error by equalizing active overweights across the Indices. This adjustment only effects the weighting scheme of the portfolio, will have no effect on the underlying research process used to initially construct the Indices, and the same names will remain in the portfolio.

Further detail available via this link, please see “Appendix” tab under Market Consultation (02/02/2024): [Conscious Companies Index | concinnity_live \(concinnityadvisors.com\)](#)

For direct download, please use this link:

https://www.concinnityadvisors.com/files/ugd/0adbf6_eb81d14333524151a2d5b90578aecff4.pptx?dn=Market_Consultation_Appendix_KRMA_20240202.pptx

Changes to the Index Guideline (highlighted)

Section 2.1 Selection of the Index Components

From:

“[...]”

In the final component of the Index’s annual construction process, the Three-Year Repeaters are screened again for a minimum Market Capitalization of \$2 billion and a minimum average daily trading value for the last 30 days greater than or equal to \$4 million. The remaining Three-Year Repeaters are compiled and **are equal weighted with ongoing adjustments for extreme underweight exposures.**

Finally, the same process that is used to balance the Concinnity MsOS List (described in the Index Methodology document) is then used on the list of Three-Year Repeaters to balance sectors, beta, and tracking error vs the Solactive US Large Cap Index. The Concinnity Conscious Companies Index is balanced only by removing companies, rather than adding any non-Three-Year Repeaters. The remaining Three-Year Repeaters are **equal weighted with ongoing adjustments for extreme underweight exposures,** and the final output of this process is the creation of the Concinnity Conscious Companies Index, which in past years has consisted of 100-125 companies.

“[...]”

To:

“[...]”

In the final component of the Index’s annual construction process, the Three-Year Repeaters are screened again for a minimum Market Capitalization of \$2 billion and a minimum average daily trading value for the last 30 days greater than or equal to \$4 million. The remaining Three-Year Repeaters are compiled and **assigned their benchmark weight with an equal weighting of any remainder (the weight of all remaining stocks in the Solactive U.S. Large Cap Index but not in the Concinnity Conscious Companies Index), resulting in an “equal active overweights” weighting scheme.**

Finally, the same process that is used to balance the Concinnity MsOS List (described in the Index Methodology document) is then used on the list of Three-Year Repeaters to balance sectors, beta, and tracking error vs the Solactive US Large Cap Index. The Concinnity Conscious Companies Index is balanced only by removing companies, rather than adding any non-Three-Year Repeaters. The remaining Three-Year Repeaters are **weighted as equal active overweights,** and the final output of this process is the creation of the Concinnity Conscious Companies Index, which in past years has consisted of 100-125 companies.

“[...]”

Section 2.2 Rebalance

From:

“[...]

The Index will be rebalanced quarterly, on the Selection Day of each of the following months; January, April, and July. The Index rebalance will be effective on the Adjustment Day of each of the following months; January, April, and July. The rebalance process starts with any necessary deletion of constituents, and then **the equal weighting with any adjustments for extreme underweight exposures of the remaining constituents**. Constituents can be deleted from the Index at the quarterly rebalance for:

- 1) Falling below a \$1.5 billion Market Capitalization
- 2) Having a minimum average daily trading value for the last 30 days of less than \$3 million
- 3) Extraordinary events relating to a company’s treatment of one (or more) of the five stakeholders defined in the Introduction section, as determined by Concinnity Advisors, LP

[...]”

To:

“[...]

The Index will be rebalanced quarterly, on the Selection Day of each of the following months; January, April, and July. The Index rebalance will be effective on the Adjustment Day of each of the following months; January, April, and July. The rebalance process starts with any necessary deletion of constituents, and then **weights each constituent as an equal active overweight**. Constituents can be deleted from the Index at the quarterly rebalance for:

- 1) Falling below a \$1.5 billion Market Capitalization
- 2) Having a minimum average daily trading value for the last 30 days of less than \$3 million
- 3) Extraordinary events relating to a company’s treatment of one (or more) of the five stakeholders defined in the Introduction section, as determined by Concinnity Advisors, LP

[...]”

Defined terms used in this Market Consultation document, but not defined herein, have the meaning assigned to them in the respective index guideline of the Index.

Feedback on the Proposed Changes

If you would like to share your thoughts with Concinnity Advisors, please use this consultation form and provide us with your personal details and those of your organization.

Name	
Function	
Organization	
Email	
Phone	
Confidentiality (Y/N)	

Concinnity Advisors is inviting all stakeholders and interested third parties to evaluate the proposed changes to the Methodology for the **Concinnity Conscious Companies Index** and welcomes any feedback on how this may affect and/or improve their use of Concinnity indices.

Consultation Procedure

Stakeholders and third parties who are interested in participating in this Market Consultation are invited to respond until **April 10th, 2024 (cob)**.

Please send your feedback to webmaster@concinnityadvisors.com, specifying “**Market Consultation**” as the subject of the email, or via postal mail to:

Concinnity Advisors, LP
1100 South Flagler Drive, Suite 310
West Palm Beach, Florida 33401

Should you have any additional questions regarding the consultative question in particular, please do not hesitate to contact us at the above email address.