

## **GUIDELINE**

# **Concinnity Multi-stakeholder Operating Companies Index**

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# Introduction

This document contains the underlying principles and regulations regarding the structure and the operating of the Concinnity Multi-stakeholder Operating Companies Index (the “Index”). Solactive AG shall make every effort to implement these regulations. Solactive AG does not offer any explicit or tacit guarantee or assurance, neither pertaining to the results from the use of the Index nor the Index value at any certain point in time nor in any other respect. The Index is merely calculated and published by Solactive AG and it strives to the best of its ability to ensure the correctness of the calculation. There is no obligation for Solactive AG – irrespective of possible obligations to issuers – to advise third parties, including investors and/or financial intermediaries, of any errors in the Index. The publication of the Index by Solactive AG is not a recommendation for capital investment and does not contain any assurance or opinion of Solactive AG regarding a possible investment in a financial instrument based on this Index.

This document is to be used as a guideline with regard to the composition, calculation and management of the Index. Any changes made to the guideline are initiated by Concinnity Advisors, LP as specified in section 1.6. The Index is calculated and published by Solactive AG. The names “Concinnity Advisors, LP” and “Solactive” are copyrighted.

## 1. Index Specifications

The Concinnity Multi-stakeholder Operating Companies Index (the “Index”) is designed to give investors an opportunity to invest in what Concinnity Advisors, LP believes are “well-managed” companies that appear to achieve financial performance in a sustainable and responsible manner. Based on nearly a decade of research, Concinnity Advisors, LP has developed a strategy that asserts “well-managed” companies are those that adopt a multi-stakeholder operating system (“MsOS”) as the nucleus for their long-term value creation process. Concinnity believes that these companies understand that successful performance in today’s marketplace largely depends on the quality of their relationships with the following stakeholders:

- Customers
- Employees
- Suppliers
- Stock and Debt Holders
- Communities in which the Company Operates

The Index is calculated every fifteen seconds of the Trading Day and distributed by Solactive AG.

The Index is calculated on both a Gross Total Return [GTR] and a Price Return [PR] basis for the equal weighted versions (CONCTR and CONCPR).

The index is calculated on a Gross Total Return [GTR] basis for the cap weighted version (CONCCWT).

The Index is published in US-Dollar [USD].

## 1.1 Short Name and ISIN

The different versions of the Concinnity Multi-stakeholder Operating Companies Index are identified in the table below:

<u>Name</u>	<u>ISIN</u>	<u>RIC Code</u>	<u>BBG Ticker</u>	<u>Currency</u>	<u>Return Type</u>	<u>Weighting</u>
Concinnity Multi-stakeholder Operating Companies Index GTR Index	DE000SLA3TQ3	.CONCTR	CONCTR Index	USD	TR	EW
Concinnity Multi-stakeholder Operating Companies Index PR Index	DE000SLA3TP5	.CONCPR	CONCPR Index	USD	PR	EW
Concinnity Multi-stakeholder Operating Companies Cap Weighted Index	DE000SL0BD40	.CONCCWT	CONCCWT Index	USD	TR	CW

## 1.2 Initial Value

The initial value of all versions of the Index is based on 100 at the close of trading on the start date, 30th July 2008.

## 1.3 Distribution

The Index is published via the price marketing services of Boerse Stuttgart AG and is distributed to all affiliated vendors. Each vendor decides on an individual basis as to whether they will distribute/display the Index via their information systems.

## 1.4 Prices and Calculation Frequency

The price of the Index is calculated on each Business Day based on the prices on the respective Exchanges on which the Index Components are listed. The most recent prices of all Index Components are used. Should there be no current price available on Reuters, the most recent price or the Trading Price on Reuters for the preceding Trading Day is used in the calculation.

The Index is calculated every fifteen seconds of every Business Day from 9:30am to 4:30pm, EST. In the event that data cannot be provided to Reuters or to the pricing services of Boerse Stuttgart AG, the Index cannot be distributed.

Any incorrect calculation is adjusted on a retrospective basis.

## 1.5 Weighting

The CONCPR and CONCTR versions of the Index are equal weighted on the Selection Day. On the Selection Day, the Number of Shares for each component of the Index is determined. This Number of Shares for each component of the Index is effective at the Trading Price on the Adjustment Day.

The CONCCWT version of the Index is market cap weighted. It is calculated using the available float shares and market price of the company. On the Selection Day, the Number of Shares for each component of the Index is determined. This Number of Shares for each component of the Index is effective at the Trading Price on the Adjustment Day.

## **1.6 Decision-making Bodies**

Concinnity Advisors, LP is responsible for decisions regarding the composition of the Concinnity Multi-stakeholder Operating Companies Index as well as any amendments to the methodology for the creation of the Concinnity Multi-stakeholder Operating Companies Index. The composition of the Concinnity Multi-stakeholder Operating Companies Index is set on the Selection Days. Concinnity Advisors, LP may at any time make changes to the composition of the Index or to the guidelines while maintaining the Index's stated objectives.

## **1.7 Publication**

All specifications and information relevant for calculating the Index are made available on the <http://www.solactive.com> web page and sub-pages.

## **1.8 Historical Data**

Historical data will be maintained from the start date, 30th July 2008.

Solactive AG has published the CONCPR and CONCTR versions of the Index since 12th July 2017.

Solactive AG has published the CONCCWT version of the Index since 30th April 2020.

## **1.9 Licensing**

Licences to use the Index as the underlying value for derivative instruments are issued to stock exchanges, banks, financial services providers and investment houses by Concinnity Advisors, LP, the owner of the Index.

## 2. Composition of the Index

### 2.1 Selection of the Index Components

The initial composition of the Index as well as any ongoing adjustment is based on the following rules:

#### 2.1.1 Initial Universe:

The universe of companies eligible for the Concinnity Multi-stakeholder Operating Companies Cap Weighted Index include companies that:

- Trade on a major US stock exchange
- Have a market cap of at least \$2 billion USD on the annual Selection Day
- Have had a minimum average daily trading value (ADTV) of \$4 million USD

#### 2.1.2 First Screen:

The initial screening stage is comprised of a broad range of sources that recognize companies for achieving various positive outcomes typically expected from firms guided by a multi-stakeholder operating system. The outcome sources used in this initial screen include publicly available ranking lists such as:

- Best Companies to Work For (Fortune Magazine)
- Best Corporate Citizens (Corporate Responsibility Magazine)
- Most Sustainable Corporations (Forbes)
- Most Ethical Companies (Forbes)
- Most Innovative Companies (Fast Company)

These initial screening sources are vetted annually and weighted based on stakeholder focus, research methodology and third party or in-house analysis of a source's potential as a leading indicator of corporate and/or stock performance. Of the approximately 1100-1400 companies that emerge from the initial universe, approximately 600-700 companies, most of which are the highest scoring companies, are further evaluated in a composite analysis.

#### 2.1.3 Second Screen: Composite Analysis

After the initial screening has identified the 600-700 companies, a composite analysis is used to apply a deeper level of scrutiny to these companies. The composite analysis uses Concinnity Advisors, LP's data set, which has been developed over many years and updated as Concinnity Advisors, LP believes is appropriate. This data set combines ratings data from multiple research entities that specialize in various assessment categories. Companies are scrutinized through a series of scoring lenses that combine to form a composite score underpinned by several hundred criteria. Composite score rankings are then combined with initial screening scores to select a universe of potential portfolio candidates. This process is described in more detail below.

##### 2.1.3.1 Composite Analysis Assessment Categories

Below are a list of assessment categories describing the type of data and characteristics captured and evaluated in the composite analysis. The data used is public as well as proprietary data supplied by vendors. Most of the data is non-financial data, and not released by the underlying companies (i.e. 10-K, 10-Q...).

1. **Environmental, Societal/Community & Governance (ESG):** Ratings from multiple ESG data providers that include numerous assessment criteria.
2. **Employee Engagement:** Ratings derived from a combination of employee productivity metrics, employee turnover measures, employee perception surveys and the "human capital" and/or labor-management scores embedded within overall ESG ratings.
3. **Corporate Reputation Management:** Ratings derived from an intangible asset management data source that evaluates several key areas of business performance such as ethics, innovation, quality, safety, sustainability and security.
4. **Innovation:** Combines innovation component scores within the intangible asset management analysis and innovation scores derived from customer perceptions.

5. **Executive Integrity:** Ratings derived by assessing the degree of honesty displayed by executives when communicating with analysts and investors, based on analysis and indicators developed by the national intelligence community.
6. **Management Capability:** Ratings derived from a methodology designed to evaluate the quality, skill and operating ability of management teams.
7. **Customer Relationship Quality:** Includes ratings based on measures of customer loyalty, social media proficiency, customer perception of value, pricing power and economic profitability of customer relationships.
8. **Supplier Relationship Quality:** Ratings derived from a supplier risk database that analyzes how a company's supply chain management and practices are enabling or hindering its ability to meet customer needs.
9. **Labor & Human Rights (Supply Chain):** Scoring system based on evaluations from a global network of factory field auditors to gauge the risk of human rights and labor violations occurring within a company's supply chain.
10. **Culture:** A combination of all customer ratings and employee related ratings are used as proxies for appraising organizational culture.
11. **Quality of Financial Reporting:** Forensic accounting specialists are relied on to grade companies on the quality of their earnings and/or overall financial reporting.
12. **Efficiency and Fundamental Analysis (EFA):** A specific set of fundamental financial ratios are considered to evaluate multi-stakeholder operating system efficiency levels.

#### 2.1.3.2 Data Aggregation

Data from the above assessment categories are weighted and combined into four aggregated scores.

1. **ESG - Environmental, Societal, and Governance**
2. **ESC - Employee, Supplier, and Customer**
3. **Quality of Management**
4. **Intangible Asset Management**

#### 2.1.3.3 MsOS Score

Modeling techniques are used to weight and combine the data from the aggregated categories (including adjustments for industry variation of stakeholder importance) into a single score for each company. This score reflects the degree to which a company is considered MsOS proficient by the research process.

#### 2.1.3.4 Valuation Score

Each company receives a valuation score which is determined using a set of fundamental financial ratios.

#### 2.1.3.5 Risk Balancing

The risk balancing process measures the sector exposure, beta, and tracking error of the proposed Concinnity Multi-stakeholder Operating Companies Cap Weighted Index as compared to the Solactive US Large Cap Index to ensure a balanced outcome. Each stock on the list is also checked for:

1. Excessive debt
2. Excessive leverage
3. Bankruptcy risk
4. Recent negative news

#### 2.1.4 Final Membership

The Concinnity Multi-stakeholder Operating Companies Cap Weighted Index is created by evaluating the MsOS Score, the Valuation Score, and the risk balancing process and selecting companies which best reflect adherence to the MsOS model. The final output ultimately comprises the members of the Concinnity Multi-stakeholder Operating Companies Cap Weighted Index, which in recent years has consisted of 300-350 companies.

## 2.2 Rebalance

The Index will be reconstituted annually using the process described in Section 2.1 above. The Index will be reconstituted on the Selection Day of October. The Index will be effective on the Adjustment Day of October. The announcement of the reconstituted Index constituents will be made on the Selection Day of October.

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



## 3. Calculation of the Index

### 3.1 Index Formula

The Index is calculated as a price return and gross total return index.

The calculation is performed according to the Equity Index Methodology, which is available on the Solactive website:

<https://www.solactive.com/documents/equity-index-methodology/>

The divisor formula stipulates that the level of the Index changes based on the change of the prices of its Index Components taking into account their weight in the Index and any currency conversion in case the price of an Index Component is quoted in a currency other than the Index Currency.

Any dividends or other distributions are reinvested across the entire basket of Index Components by means of a divisor at the opening of the effective date (the so-called ex-date) of the payment of such dividend or other distribution.

A more detailed description of the mechanics of the index calculation formula can be found in the Equity Index Methodology under Section 1.2.

### 3.2 Accuracy

The value of the Index will be rounded to two decimal places.

The Number of Shares of the Index Components will be rounded to six decimal places.

Trading Prices will be rounded to six decimal places.

### 3.3 Adjustments

Under certain circumstances, including extraordinary events relating to a company's treatment of one (or more) of the five stakeholders, an adjustment of the Index may be necessary between two regular Rebalance Days. Such adjustment has to be made if a corporate action (as specified in section 3.4 below) in relation to an Index Component occurs. Such adjustment may have to be done in relation to an Index Component and/or may also affect the number of Index Components and/or the weighting of certain Index Components and will be made in compliance with the Solactive Equity Index Methodology, which is incorporated by reference and available on the Solactive website:

<https://www.solactive.com/documents/equity-index-methodology/>

Solactive will announce the Index adjustment giving a notice of at least two Trading Days (with respect to the affected Index Component) on the Solactive website under the section "Announcements", which is available at <https://www.solactive.com/news/announcements/>. The Index adjustments will be implemented on the effective day specified in the respective notice.

### 3.4 Corporate Actions

As part of the Index maintenance, Solactive will consider various events – also referred to as corporate actions – which result in an adjustment to the Index between two regular Rebalance Days. Such events have a material impact on the price, weighting, or overall integrity of Index Components. Therefore, they need to be accounted for in the calculation of the Index. Corporate actions will be implemented from the cum-day to the ex-day of the corporate action, so that the adjustment to the Index coincides with the occurrence of the price effect of the respective corporate action.

Adjustments to the Index to account for corporate actions will be made in compliance with the Equity Index Methodology, which is available on the Solactive website:

<https://www.solactive.com/documents/equity-index-methodology/>

This document contains, for each corporate action, a brief definition and specifies the relevant adjustment to the Index variables.

While Solactive aims at creating and maintaining its methodology for the treatment of corporate actions as generic and transparent as possible and in line with regulatory requirements, it retains the right in accordance with the Equity Index Methodology to deviate from these standard procedures in case of any unusual or complex corporate action or if such a deviation is made to preserve the comparability and representativeness of the Index over time.

Solactive considers the following, but not conclusive, list of corporate actions as relevant for the Index maintenance:

- Cash distributions (e.g. payment of a dividend)
- Stock distributions (e.g. payment of a dividend in the form of additional shares)
- Stock distributions of another company (e.g. payment of a dividend in the form of additional shares of another company (e.g. of a subsidiary))
- Share splits (company's present shares are divided and therefore multiplied by a given factor)
- Reverse splits (company's present shares are effectively merged)
- Capital increases (such as issuing additional shares)
- Share repurchases (a company offers its shareholders the option to sell their shares at a fixed price)
- Spin-offs (the company splits its business activities into two or more entities and distributes new equity shares in the created entities to the shareholders of the former entity)
- Mergers & Acquisitions (transaction in which the ownership of a company (or other business organizations) is transferred or consolidated with other entities (e.g. fusion of two or more separate companies into one entity))
- Delistings (company's shares are no longer publicly traded at a stock exchange)
- Nationalization of a company (effective control of a legal entity is taken over by a state)
- Insolvency

### **3.5 Recalculation**

Solactive makes the greatest possible efforts to accurately calculate and maintain its indices. However, errors in the determination process may occur from time to time for a variety of reasons (internal or external) and therefore, cannot be completely ruled out. Solactive endeavors to correct all errors that have been identified within a reasonable period of time. The understanding of "a reasonable period of time" as well as the general measures to be taken are generally dependent on the underlying and is specified in the Solactive Correction Policy, which is incorporated by reference and available on the Solactive website:

<https://www.solactive.com/documents/correction-policy/>

### **3.6 Market Disruption**

In periods of market stress Solactive calculates its indices following redefined and exhaustive arrangements as described in the Solactive Disruption Policy, which is incorporated by reference and available on the Solactive website:

<https://www.solactive.com/documents/disruption-policy/>

Such market stress can arise due to a variety of reasons, but generally results in inaccurate or delayed prices for one or more Index Components. The determination of the Index may be limited or impaired at times of illiquid or fragmented markets and market stress.

## 4. Definitions

**“Adjustment Day”** is the last Business Day in October, January, April, and July.

**“Affiliated Exchange”** is with regard to an Index Component an exchange, trading or quotation system on which options and futures contracts on the Index Component in question are traded, as specified by the Index Calculator.

**“Business Day”** is a day on which the New York Stock Exchange is open for trading.

**“Dividend Correction Factor”** is calculated as 1.

**“Equal Percentage Weight”** of an index is calculated by dividing 100 by the number of components of that index.

**“Exchange”** is, in respect of the Index and every Index Component, the respective primary exchange where the Index Component has its primary listing. Concinnity Advisors, LP may decide to declare a different stock exchange the “Exchange” for trading reasons, even if the company is only listed there via a Stock Substitute.

**“Index Calculator”** is Solactive AG or any other appropriately appointed successor in this function.

**“Index Component”** is each company currently included in the Index.

**“Index Currency”** is US-Dollar [USD].

**“Index Universe”** with respect to the annual reconstitution Selection Day are companies that fulfill the following criteria:

- 1) Trading on a major US stock exchange
- 2) Have a market cap of at least \$2 billion USD on the annual Selection Day
- 3) Have had a minimum average daily trading value (ADTV) of \$4 million USD
- 4) Have been put on Concinnity Advisors, LP’s multi-stakeholder operating system list (“Concinnity Annual MsOS List”) for three consecutive years

The Index Universe with respect to the quarterly rebalancing Selection Day are companies that fulfill the following criteria:

- 1) Trading on a major US stock exchange
- 2) Have a market cap of at least \$1.5 billion USD on the annual Selection Day
- 3) Have had a minimum average daily trading value (ADTV) of \$3 million USD
- 4) Have been put on Concinnity Advisors, LP’s multi-stakeholder operating system list (“Concinnity Annual MsOS List”) for three consecutive years

**“Market Capitalization”** is defined as the value of a company calculated by multiplying the number of shares outstanding of the company by its share price.

**“Market Cap Weighting”** is defined as weighting each constituent of the index by its market cap size. The market cap of each constituent is calculated using the available float shares multiplied by the market price. The weight for each constituent is its market cap divided by the sum of all the market caps for the constituents in the index.

**“Number of Shares”** is, in respect of an Index Component and any given Business Day, the number or fraction of shares included in the Index. The number of shares for each component of the Index is calculated on the Selection Day as (A) the Equal Percentage Weight of an Index Component multiplied by the Index value divided by (B) its Trading Price.

**“Percentage Weight”** of an Index Component is the ratio of its Trading Price multiplied by its Number of Shares divided by the Index value.

**“Price of Index Component”** is the price of the component of the Index in accordance with the Exchange regulations at any given time throughout the Trading Day.

**“Selection Day”** is 5 Business Days prior to the Adjustment Day.

**“Stock Substitute”** includes, in particular, American Depositary Receipts (ADR) and Global Depositary Receipts (GDR).

**“Trading Day”** is, in relation to the Index or an Index Component, a day where trading is conducted on the Exchange (or a day that would have been such a day if a market disruption had not occurred), excluding days on which trading may be ceased prior to the normal Exchange closing time. The Index Calculator is ultimately responsible as to whether a certain day is a Trading Day with regard to the Index or an Index Component or in any other connection relating to this document.

**“Trading Price”** in respect of a Trading Day is the closing price on this Trading Day determined in accordance with the Exchange regulations. If the Exchange has no closing price for an Index Component, the Index Calculator shall determine the Trading Price and the time of the quote for the share in question in a manner that appears reasonable to them.

## **5. Appendix**

### **5.1 Contact Data**

#### **Information regarding the Index concept**

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### **5.2 Calculation of the Index – Change in Calculation Method**

The application by the Index Calculator of the method described in this document is final and binding. The Index Calculator shall apply the method described above for the composition and calculation of the Index. However, it cannot be excluded that the market environment, supervisory, legal, financial or tax reasons may require changes to be made to this method. The Index Calculator may also make changes to the terms and conditions of the Index and the method applied to calculate the Index, which he deems to be necessary and desirable in order to prevent obvious or demonstrable error or to remedy, correct or supplement incorrect terms and conditions. The Index Calculator is not obliged to provide information on any such modifications or changes. Despite the modifications and changes the Index Calculator will take the appropriate steps to ensure a calculation method is applied that is consistent with the method described above.