BeQ Indexes Review Strategy Index (IRSI)

Navigating Inefficiencies, Delivering Exceptional Returns

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Introduction

Why the Indexes Review Strategy is Attractive?

It is widely known that the index needs to be reviewed periodically. For example, S&P 500 is reviewed quarterly, NIKKEI 225 is reviewed semi-annually, NASDAQ 100 is reviewed annually.

Based on transparent rules and experience on the index Committee, early trade before announcement will have significant profits.

Having enough ability to anticipate the list of new stock addition/ deletion, BeQ can take advantage from temporary market swings when an index announces changes and makes profit.

Index Investment

Assets Under Management (AUM)

The Assets Under Management (AUM) of index funds: A Global Phenomenon

The Assets Under Management (AUM) of index funds have been steadily increasing. The popularity of index funds has surged in recent years, fueled by their lower costs, simplicity, and, often, superior performance compared to actively managed funds. This growth has led to a dramatic increase in Assets Under Management (AUM) worldwide.

As of early 2024, the global AUM for index funds exceeded a staggering $13 trillion. This represents a substantial uptick from previous years, underscoring the growing investor preference for passive investment strategies.

The United States remains the dominant market for index funds, with a staggering $8 trillion in AUM. However, other regions have also witnessed significant growth. Europe has amassed approximately $3 trillion in index fund assets, while the Asia market, though still developing, has seen a steady increase to around $1 trillion.

Index funds have exhibited consistent growth, with their AUM increasing at a steady rate of 10% to 15% annually in recent years. This sustained growth trajectory reflects the increasing investor preference for passive investment strategies.

Furthermore, index funds have been steadily gaining market share relative to actively managed funds. As investors seek to reduce costs and simplify their investment portfolios, index funds have become increasingly attractive options.

Passive vs Active Index Funds

Passive index funds offer investors a significant cost advantage over actively managed funds. This is primarily due to their simplified investment strategy, which involves tracking a specific market index rather than attempting to outperform it. As a result, passive funds require less active management and lower transaction costs.

Active index funds charge investors a management fee to compensate for the fund manager's expertise and the operational costs associated with managing the fund. This fee is included in the fund's expense ratio, which is expressed as a percentage of its assets under management (AUM).

Active funds strive for higher return and come with higher costs and risks. Passive funds offer steady, long-term returns at lower costs but carry market-level risks.

Passive Index Funds and Index Reviews: A Symbiotic Relationship

Passive index funds and index reviews are closely intertwined, with each influencing the other. Index reviews, which involve changes to the composition of an index, can have significant implications for passive index funds that track those indices.

How Index Reviews Impact Passive Index Funds

- **Fund Composition**: When an index is reviewed, new securities may be added or removed. This can lead to changes in the underlying holdings of passive index funds that track that index.
- **Performance**: Index reviews can impact on the performance of passive index funds. If the new additions to the index outperform the removed securities, the fund's performance may improve. Conversely, if the removed securities outperform the new additions, the fund's performance may decline.
- **Tracking Error**: Index reviews can affect the tracking error of a passive index fund, which is the difference between the fund's performance and the performance of its underlying index. Changes in the index composition can introduce tracking errors.

In recent years, there's been a growing trend towards passive investment strategies, especially index investing. This approach lets investors match the market's overall performance without incurring high trading costs. However, the popularity of index funds can lead to market imbalances. When stocks are added or removed from an index, it can trigger large-scale buying or selling, potentially distorting stock prices.

Demand-based explanations suggest that when index-tracking investors buy a stock newly added to an index, the increased demand can drive up the stock's price**.** This often leads to positive abnormal returns around the inclusion date (Shleifer, 1986; Harris and Gurel, 1986).

Index Review

Definition

Index reviewing involves an initial review of assets, setting criteria based on market conditions, and making subsequent adjustments to asset weights, sometimes leading to the addition or removal of specific assets.

How Index Review Impacts the Stock Market?

The regular reconstitution of equity indices can significantly influence the performance of companies included or excluded. Extensive academic research has explored the impact of these changes on stock prices, trading volume, and other firm attributes. Inclusion consistently demonstrated that inclusion in a prominent index often leads to increased investor interest, while exclusion can have adverse consequences.

Index rebalancing often triggers a surge in trading activity due to the immediate need for institutional and retail investors to adjust their portfolios. Asset managers overseeing index funds or ETFs must rapidly rebalance their holdings to align with the new index composition, leading to increased demand for the added stocks and decreased demand for the removed ones. This heightened trading activity can create short-term price discrepancies that arbitrageurs may exploit for profit.

Index rebalancing can significantly impact stock volatility. Newly added stocks often experience price increases due to buying pressure from index-tracking funds, while removed stocks may face selling pressure, leading to price declines. Although these price movements are often short-lived, they canreate both challenges and opportunities for active investors seeking to capitalize on market inefficiencies.

Frequency and Period of Index Review

Important dates

Review period is the frequency with which the index is reviewed and adjusted. This may be quarterly for the S&P 500 or depending on the policy of the other institutions.

The announcement date is the date on which the organization publicly announces the changes that will be made to the index. This announcement is usually made some time before the effective date so that investors can prepare.

The effective date of an index is the point in time at which changes to the list of constituent companies in the index take effect on the market.

Prediction Index Changes Feasibility

Indexes Rules Driven

The selection criteria is almost fixed for every index and public transparently. The Index Committee just bases on those fixed rules and reviews the index periodically.

If we know how these selection criteria work, we can predict the list of new addition or deletion of stock. Once the rules driven for those indexes are smoothly calculated, the probability of predicting the list of new addition or deletion of stock in an exact way is extremely high or almost never wrong. Since the selection criteria is almost fixed for every index.

Experience in the Indexes Review Constitution Files

Dr. Huu Minh MAI (Co-founder of BeQ Holdings) has nearly 20 years of experience working in European Stock Exchanges namely NYSE Euronext and Paris Option Market (MONEP), with specialization in Design and Development of new indices and Coordinate Trackers launch based on these new indices.

He was in charge of preparing French Indexes Review Files for the Conseil Scientific (Index Committee)

Therefore, BeQ Holdings believes to have enough expertise and ability to calculate and follow those driven-rules of reviewing indexes. Regardless of the driven-rules or replacement criteria of index are disclosed or undisclosed.

Empirical Literature: Effects of Changes in Stock Index Compositions

Several studies have documented evidence of significant positive (negative) price and non-price effects when stocks are added to (removed from) an index.

Price and Trading Volume

An overwhelming majority of studies investigate the effects of the changes on price and trading volume. For example, Chen et al. (2004) and Wang et al. (2015) found that stocks added to an index often experience increased trading activity, while those removed may see declines in trading volume.

Institutional Stock Holdings

Pruitt and Wei were early researchers who studied how changes in index composition affect factors beyond just stock prices and trading. They found that institutional investors tend to buy more stocks that are added to indices, and this isn't just limited to the S&P 500.

Rigamonti and Barontini (2000) and Biktimirov et al. (2004), found that when stocks are added to the Mib30 in Italy or the Russell 2000 in the United States, institutional investors tend to buy more of them.

Overall, research across different indices indicates that becoming part of an index often leads to increased institutional ownership, but leaving an index doesn't always result in decreased ownership.

Liquidity

Most studies that look at how liquidity changes often use measures like the turnover ratio (for example Becker-Blease and Paul, 2006), Amihud illiquidity ratio (for example Chan et al. 2013), and bid-ask spread (for example Hegde and McDermott, 2003; Kamal, 2014; Wang et al. 2015). However, both the Amihud illiquidity and turnover ratios can have problems telling the difference between temporary and long-lasting changes in trading volume (Gabrielsen et al. 2011).

While many studies suggest that S&P 500 additions experience improved liquidity (for example Edmister et al. 1996; Beneish and Whaley, 1996; Erwin and Miller, 1998; Hegde and McDermott, 2003; Becker-Blease and Paul, 2006), as evidenced by narrower bid-ask spreads, the evidence for permanent liquidity enhancements is inconclusive. Beneish and Whaley (1996) and Kaul et al. (2000) found that the positive impact on liquidity for new S&P 500 and TSE 300 additions is often temporary, with bid-ask spreads reverting to pre-inclusion levels over time.

Asymmetric Effects Between Index Addition and Index Deletion

Some empirical research show that there has been an asymmetric effect between index addition and index deletion:

- **Chen et al. (2004)** identified an asymmetric impact of index inclusion and exclusion on various firm attributes. While S&P 500 additions often experience significant improvements in liquidity, analyst coverage, and other related factors, deletions may not necessarily lead to negative changes in these variables.
- **Mase (2007)** found an asymmetric effect for FTSE 100 additions and deletions, observing that abnormal trading volume increases for additions but not for deletions. He attributed this to the lack of anticipatory trading by non-index-tracking investors in anticipation of deletions.
- Similar to Mase (2007), **Daya et al. (2012)** found asymmetric effects for FTSE 100 additions and deletions, observing that liquidity and media coverage tend to increase for additions but not necessarily for deletions."

The authors believe that the changes have a much greater effect on the risks specific to each company, the amount of trading, and how efficiently information is used for added stocks compared to deleted stocks.

Index Review Strategy

Based on transparent rules and experience on the index Committee, early trade before announcement will have significant profits.

Having enough ability to anticipate the list of new stock addition/ deletion, BeQ can take the advantage from temporary market swings when an index announces changes and makes profit. By predicting the list of new addition before any official announcements, BeQ has the advantage of:

- **Buying forecasted additional stocks with lower price** at the beginning of review month.
- **Selling the purchased stocks after the effective day with a higher price**. Once the newly added stocks are part of the index, they can create temporary market swings. Stocks added might see a short-term price increase due to buying pressure. BeQ can potentially profit from these short-term price movements.

Investment

There are two primary approaches to allocate your investment in the group of new addition stock:

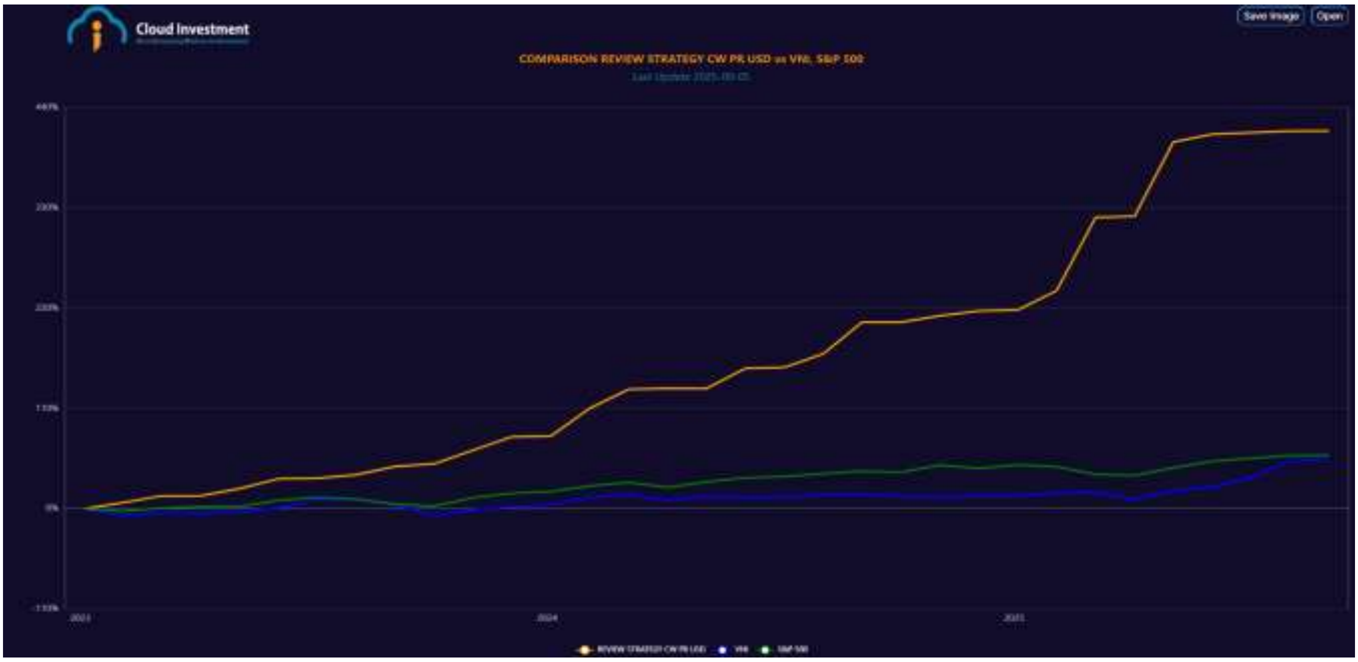
- **Capitalization weighted investment method**: the investment amount in each company is proportional to its market capitalization. Larger companies with greater market value receive a higher proportion of the investment.
- **Equally weighted investment method**: the investment amount is distributed equally among all the companies, regardless of their market capitalization. This provides equal exposure to each company, irrespective of its size.

Performance of the BeQ Indexes Review Indexes

	Absolute	Excess vs S&P500
Year to Date (YTD)	**+62.37%**	**+52.74%**
Rolling 1Y Annualized Performance	**+90.61%**	**+75.08%**
Rolling 3Y Annualized Performance	**+71.30%**	**+54.54%**
Rolling 6Y Annualized Performance	**+30.91%**	**+17.01%**

* End of August 2025

Chart



Factsheet Of Indexes Review Strategy Index (IRSI)

Specifications	Description
Full name	IFRC/BEQ Review Strategy CW PR USD
Short name	Review Strategy CW PR USD
Symbol	IRSI
Price or Total Return	Performance Index
Currency	USD
Constituents number	Dynamic following additions/removals anticipations
Weighting	Capitalization Weighted (CW)
Calculation Frequency	End of Day
Capping	-
Composition Review	Following events
Share review	-
Free float review, banding	-
Base Date	2022-12-31
Base Value	1,000
History since	2022-12-31
Launching date	2023-03-22
Internal Code	INDREVRT20CWPRUSD

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