

## Press Release

### Solactive Investigates the Impact Incurred by Index Trackers at the Time of Reconstitution in New White Paper Series 'Money Left on the Table'

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In today's investment world, index benchmarks are widely utilized instruments, and major benchmarks are well-recognized by financial professionals all over the globe. Given this reputation and influence, large numbers of funds follow their allocation and constituents, raising questions of how benchmarks are used on a large scale, what their main characteristics are, and, most notably, how they will be exploited by market participants. To study the impact that index trackers incur at the time when the indices are rebalanced, Solactive conducted broad research and published a three-paper series investigating deeply into the topic.

The first paper called '**Passive Investing and the Effects of Reconstitution**' suggests that investors and asset managers should look beyond just the stock additions and deletions when measuring the impact of reconstitutions. The paper discusses the magnitude of impact from the advance actions of market participants across different months of a year and in various size segments. This impact is attributed not only to stock additions and deletions but also to the pure reweighting of the underlying index components. **Therefore, highly cost-conscious index investors should reckon this impact of reconstitution, as it generates a noteworthy drag on performance over longer periods.**

The effectiveness of the timing of the reconstitution of indices is examined closely in the **second white paper** labeled '**Why You Should Think About The Timing of the Reconstitution**'. The research found statistically insignificant differences in historical returns, random patterns of ranking by the impact of reconstitution, and similarity of turnover amongst indices reconstituted in different months of a year within each size segment, **implying that spreading the reconstitution over several periods may be one of the ways to mitigate the effects of the unmanageable timing factor.**

The last white paper deals with '**A Deeper Look into the Effects of Liquidity and Reconstitution**'. Solactive investigated the effect of liquidity on the impact of reconstitution using a spectrum of indices moving from float market capitalization weights towards liquidity weights, **finding a significant decrease in the impact of reconstitution in portfolios closer towards liquidity weights.** The findings suggest that investors should weigh in the trade-off between the impact of reconstitution and turnover costs in order to achieve breakeven in overall costs.

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*"With the rise of passive investment, indices are commonly used, and names of major benchmarks are known all over the globe. We are talking about large sums of money flowing into the passive industry, and, with this fact in mind, it is utterly important to understand the principle behind indices' reconstitution - of which many are not aware - and to comprehend what is actually happening in this process,"* comments Timo Pfeiffer, Chief Markets Officer at Solactive. *"We are very proud to contribute with our research on navigating this known issue, which is exceedingly relevant for every asset manager or service provider that tracks benchmarks in any form."*

Download the first white paper '**Passive Investing and the Effects of Reconstitution**' via this link: [Money Left on the Table – Passive Investing and the Effects of Reconstitution](#)

Download the second white paper '**Why You Should Think About the Timing of the Reconstitution**' via this link: [Money Left on the Table – Why You Should Think About the Timing of the Reconstitution](#)

Download the third white paper '**A Deeper Look into the Effects of Liquidity and Reconstitution**' via this link: [Money Left on the Table – A Deeper Look into the Effects of Liquidity and Reconstitution](#)

For further information, please visit: <http://www.solactive.com>

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## Note to editors

### About Solactive

Solactive is a leading provider of indexing, benchmarking, and calculation solutions for the global investment and trading community. Headquartered in Frankfurt, and with offices in Hong Kong, Toronto, Berlin, and Dresden, we innovate and disrupt the status quo as the partner of choice for our clients.

The unique blend of our 250 staff's expertise in data, data science, financial markets, and technology enables our clients' continued success through the delivery of a superior experience, unique customization capabilities, and the best value for money available in the industry. With more than 14,000 indices calculated daily, we offer a full suite of solutions, including market-leading ESG and thematic indices.

As at April 2020, Solactive served approximately 450 clients across the world, with approximately US\$200 billion invested in products linked to our indices. Solactive is registered with ESMA as a benchmark administrator and is supervised by the BaFin.

### Disclaimer

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