INSIDE OWNERSHIP INDEX

Follow the Founders

Why are index funds so difficult to beat?

The answer is indexes allow winners to run.

Calculated by
S&P Dow Jones Indices

Index Description

The Inside Ownership 100 index measures the performance of shares owned by insiders. Just as the S&P 500 serves as a proxy for the general economy, the IO 100 represents corporate decision makers at the highest level. In other words, it can be called the Skin in the Game index.

Methodology

The IO 100 selects and weights the top 100 stocks based on the value of outstanding shares owned by the insiders, giving a higher weighting to those with large insider ownership. This runs counter to the S&P 500's free float-adjusted market cap weighting.

As an example, Amazon's market cap is free float-adjusted to exclude shares owned by Jeff Bezos when determining its weighting. As he sells his stock, the S&P increases the free float factor, leading the index to buy more Amazon stock. We believe this to be a flaw as we want to move directionally with founders or other insiders, reducing exposure when they do so.

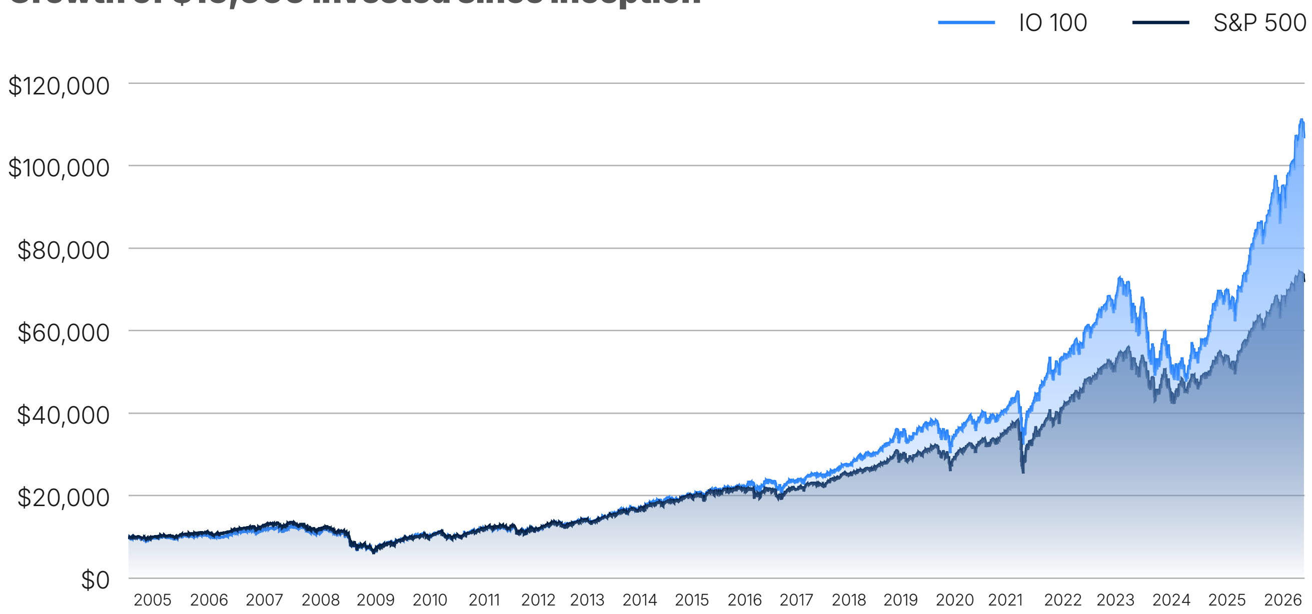
In contrast, the IO 100 gives Amazon a higher weighting while Bezos owns more shares, reducing the exposure when he sells his stake in the company. To do this, we use the S&P 500 as the initial filter and then weight stocks based on the value of inside ownership. Total insider shares used for the calculation are capped at 5% of the total shares outstanding to reduce over concentration risk and to comply with U.S. tax law for passive indexing.

Over the last two decades, use of this simple, intuitive methodology has produced significantly higher results than the use of some other market cap weighted indices.

Index Key Characteristics	
Bloomberg Ticker	INSIDER
Asset Class	Equity
Geographical Focus	United States
Equity Universe	S&P 500
Launch Date	November 26, 2024
Type of Return	Total Return
Index Sponsor	Inside Ownership Index Inc.
Calculation Agent	S&P Dow Jones Indices
Website	https://insideownership.com/

Historical Index Performance

Growth of $10,000 invested since inception*



> By periodically investing in an index fund, the know-nothing investor can actually outperform most investment professionals.
>
> **– Warren Buffett**

Return analysis	IO 100	S&P 500
YTD	-0.45%	1.44%
1Y	28.20%	18.41%
3Y	19.18%	12.55%
5Y	21.64%	16.85%
10Y	17.14%	12.98%
Inception annualized	12.48%	10.41%
Inception cumulative	974.96%	638.81%
Annualized 10Y volatility	17.49%	15.26%
Annualized risk-adjusted returns	0.98	0.85

* Performance is based on backtested data prior to November 26, 2024. The IO 100 was incepted on December 20, 2004.

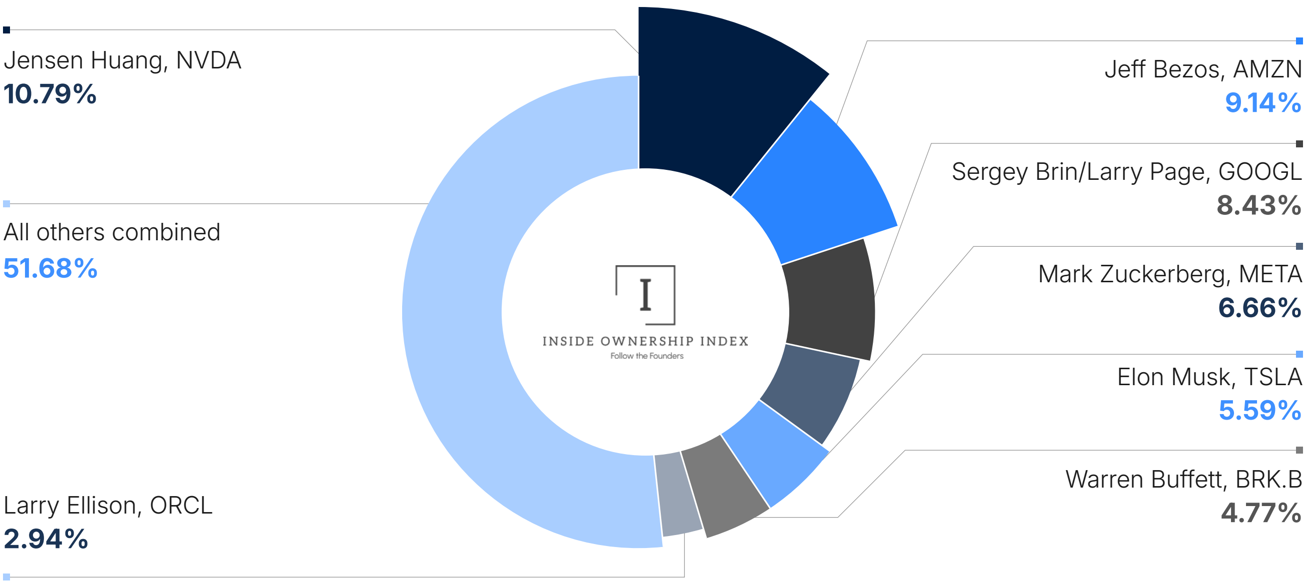
** As of February 28, 2025

Maximizing Market Efficiency

Passive market-cap weighted indices have been difficult to beat because they do not sell winners, but have earned their returns by systematically allowing winners to run. However, as more money flows into passive funds, it creates a self-reinforcing cycle in which heavily weighted stocks continue to receive more investment, potentially driving their prices higher.

The more recent phenomenon of active investors being replaced by passive index investors has potentially impeded price discovery and market efficiency. As price discovery becomes less prevalent, the only true arbiters of the value of these businesses have become the insiders. This might explain the recent acceleration in the outperformance of the IO 100 over other market cap weighted indices. We expect this trend to persist as market cap weighted indices continue to take market share and price discovery continues to weaken. As founder-led companies typically have higher inside ownership, the IO 100 systematically follows the founders, and allows those founders to run.

> Paradoxically, when 'dumb' money acknowledges its limitations, it ceases to be dumb.
>
> **– Warren Buffett**



(As of 12/20/2024)

The Inside Ownership 100 Index captures the benefits of investing in companies alongside founders and visionaries who have significant skin in the game. Most the best-performing stocks over the past half-century or more had significant ownership by their insiders. Sam Walton with Walmart, Warren Buffett with Berkshire Hathaway, Phil Knight with Nike, Howard Shultz with Starbucks, along with Monster Beverage, Intel, Qualcomm, and the entire "Magnificent 7" exemplify success driven by key individuals at the helm. Emphasizing inside ownership has produced meaningful results with strong and intelligent leadership, a culture of innovation, and a track record of long-term performance.

> Non-Skin in the Game people don't get simplicity.
>
> **– Nassim Taleb**

How it works

01
Take the S&P 500 Universe

The IO100 uses the S&P 500 as the initial filter so that the index invests only in U.S. companies with a high market-cap threshold, adequate liquidity, financial viability and positive earnings.

02
Calculate insider shares

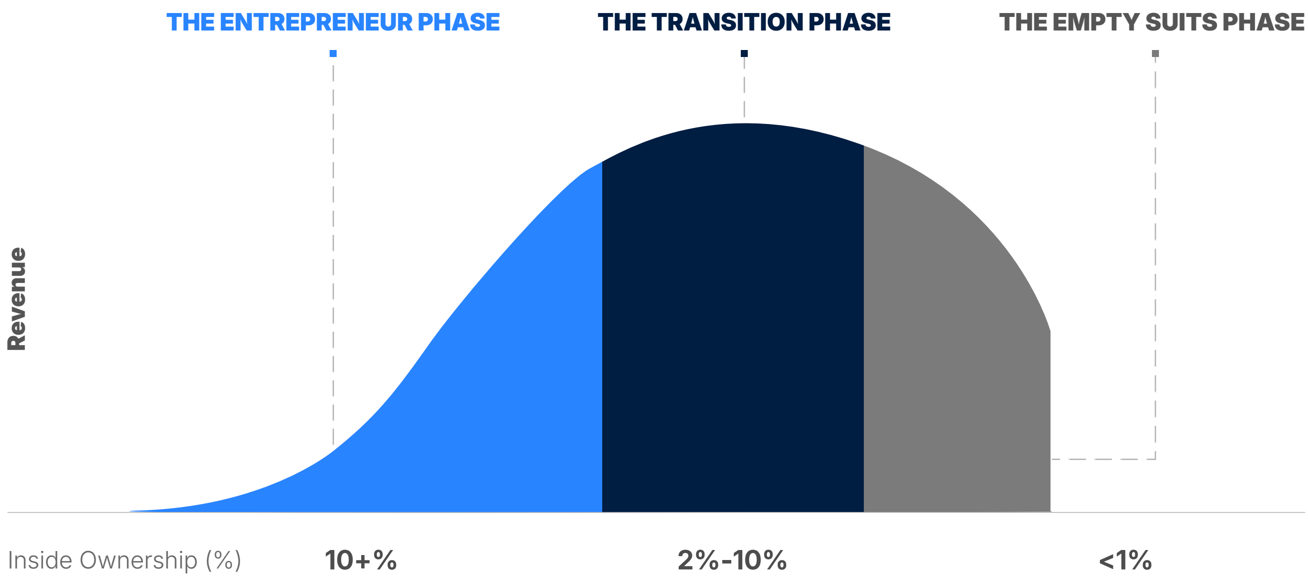
The IO 100 determines the number of shares owned by insiders as reported on each company's DEF 14A proxy filing. This number (with a maximum of 5% of the shares outstanding) multiplied by the share price generates the value then used to determine constituent weightings.

03
Rebalance

On a quarterly basis, the IO 100 takes the 100 companies with the highest value as calculated in Step 2, and proportionally invests across each stock.

> Companies beyond the entrepreneur stage start to rot
>
> **– Nassim Nicholas Taleb**

BUSINESS LIFE CYCLE OF A FIRM



Favoring Companies
in the Optimal Phases

Inside ownership evolves over the course of a firm's life cycle. We think of Meta, Tesla, and Nvidia as prime examples of firms within the Entrepreneur Phase, during which the founders are still very much involved.

In contrast, companies such as Amazon, Nike, and Berkshire Hathaway are in the Transition Phase, as the founders begin to step away and find new leadership to take over.

The Empty Suits Phase can be characterized by founders completely removing themselves from the business. The board room and C-Suite shed entrepreneurial spirit, and the culture evolves into that of salaried employees. Examples of this group include Intel, 3M, Boeing and Starbucks.

The IO 100 systematically favors companies within the Entrepreneur and Transition phases and underweights companies in the Empty Suits phase.

> If your only defense against invading armies is a moat, you will not last long. What matters is the pace of innovation which is the fundamental determinant of competitiveness.
>
> **– Elon Musk**

The Pace of Innovation and Soul in the Game

It's not companies that innovate, it's those individuals with Soul in the Game. With the pace of innovation, economic moats have become individuals rather than brands, it's no longer customer loyalty, or even technology, that provides competitive advantage, but those individuals that live and breathe their companies.

Elon Musk, Mark Zuckerberg, Jeff Bezos, Jensen Huang, and Warren Buffett have been the moats of their respective organizations – not the conventional moats of economies of scale, network effects, switching costs, and cost advantages. It was those individuals who made the difference. The next wave of innovation in the AI era will be driven by the next set of innovators with Soul in the Game.

> Show me the incentive, and I will show you the outcome.
>
> **– Charlie Munger**

Prioritizing Skin in the Game

Nassim Nicholas Taleb's "skin in the game" principle asserts that decision-makers must bear the consequences, both positive and negative, of their actions. For corporate executives, this translates to substantial equity ownership, aligning their futures with the company's performance and exposing themselves to downside risks, thus creating a symmetry between their decisions and shareholder interests.

Alignment: Leaders make decisions that prioritize the company's success over personal gain, benefiting the company's long-term health over short-term gains, and take calculated risks that could lead to significant growth.

Accountability: Leaders are more likely to make prudent, thoughtful decisions that reflect careful consideration of potential outcomes. As leaders learn from and are accountable to mistakes, this results in more adaptable and resilient companies.

Ethics: Leaders have the incentive and motivation to promote ethical business practices, prioritize sustainable growth over short-term profits, engage in activities that strengthen the company's reputation and long-term viability, and create a more robust ethical framework that is reinforced throughout the company.

Disclaimer

The Inside Ownership 100 (the "Index") is the property of Inside Ownership Index Inc., which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third-party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omissions in calculating the Index. "Calculated by S&P Dow Jones Indices" and the related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Inside Ownership Index Inc. S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").

The Index was launched 11/26/2024, prospective investors should be aware that any hypothetical performance data included is derived from the simulated historical data that prevailed in the period following the date of the relevant simulation. Accordingly, although the graphs and simulated results herein may be useful in order to gain some historical perspective, past performances of the Index and the hypothetical historical performance data presented should not be taken as indicative of future performance of the Index. It is impossible to predict whether the value of the Index will rise, fall or remain flat. Hypothetical historical results have their inherent limitations. These hypothetical back-tested results are determined by means of a retroactive application of a back-testing model designed with the benefit of hindsight. Hypothetical back-tested results are neither an indicator nor guarantee of future returns or future performance. Actual results will vary, perhaps materially, from the hypothetical analysis. The hypothetical examples, scenarios or figures herein are provided for illustrative purposes. They allow an understanding of the Index's mechanism and how the Index would have performed during different market stages over previous years, excluding taxes and expenses.