

Direct Indexing: Accelerate growth and increase personalization in 2024



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Agenda

Introduction of First Affirmative and YourStake

Disruptive Technology and Shifting Investor Expectations

Utilizing Direct Indexing to Accelerate Growth and Increase Personalization in 2024

How to get started using VADIS in your practice

First Affirmative Mission

Produce and deliver outcome-oriented Sustainable Investment Solutions to meet our clients' individual financial and impact goals.

For more than 30 years, First Affirmative has provided — tailored to the individual needs of the client — discretionary investment advisory services to investors who seek integration of personal values and/or environmental, social, and governance (ESG) factors into the construction and management of investment portfolios, using mutual funds, managed model portfolios, and/or individual securities.

Innovatively and Authentically Leading the Way

1999

SRI-only Managed Mutual Fund models

2003

Carefully cultivated Multi-Manager models

2018

Custom Sustainable Investment Solutions

2020

AffirmativESG advisor workstation /YourStake partnership

2021

VADIS/On-Demand Impact Performance

2023

Enhanced VADIS platform and YourStake technology

Our Philosophy

First Affirmative believes that investors must take responsibility for the impact their money has in the world. Since 1988, we have served individuals and institutions seeking to achieve financial returns and align their portfolios with their values.

Our Advisor and Client Services Team is here to provide end to end support for you and your clients. They are here to help manage new and existing accounts, cashiering, performance reporting, salesforce administration, tax considerations, and compliance.

Our Process

Our investment process integrates analysis of environmental, social, and governance factors into portfolio design. Portfolio formation incorporates the objectivity of quantitative analysis and the insights of fundamental research. This approach enables us to deliver portfolios that meet our clients' financial and impact objectives.

ESG research, analysis, portfolio construction and assessment, financial and impact analytics and reporting, and advocacy expertise set First Affirmative apart.

YourStake's Mission + Overview

Founded in 2019, YourStake serves over 250 advisor firms, including top RIAs and broker dealers cross the wealth management industry as well as asset managers and TAMPs. YourStake is SOC2 Type 2 certified and is proud to be a top-rated tool according to customer satisfaction by T3/Inside Information 3 years in a row.

Three solutions to deliver personalization to clients in different ways

Advisor Core: Statement Extraction, Portfolio Analysis, and Proposal Generation

Values Hub: Questionnaire, Reporting, and Screening Tools with ESG data

Direct Indexing: Values Aligned Direct Indexing with First Affirmative

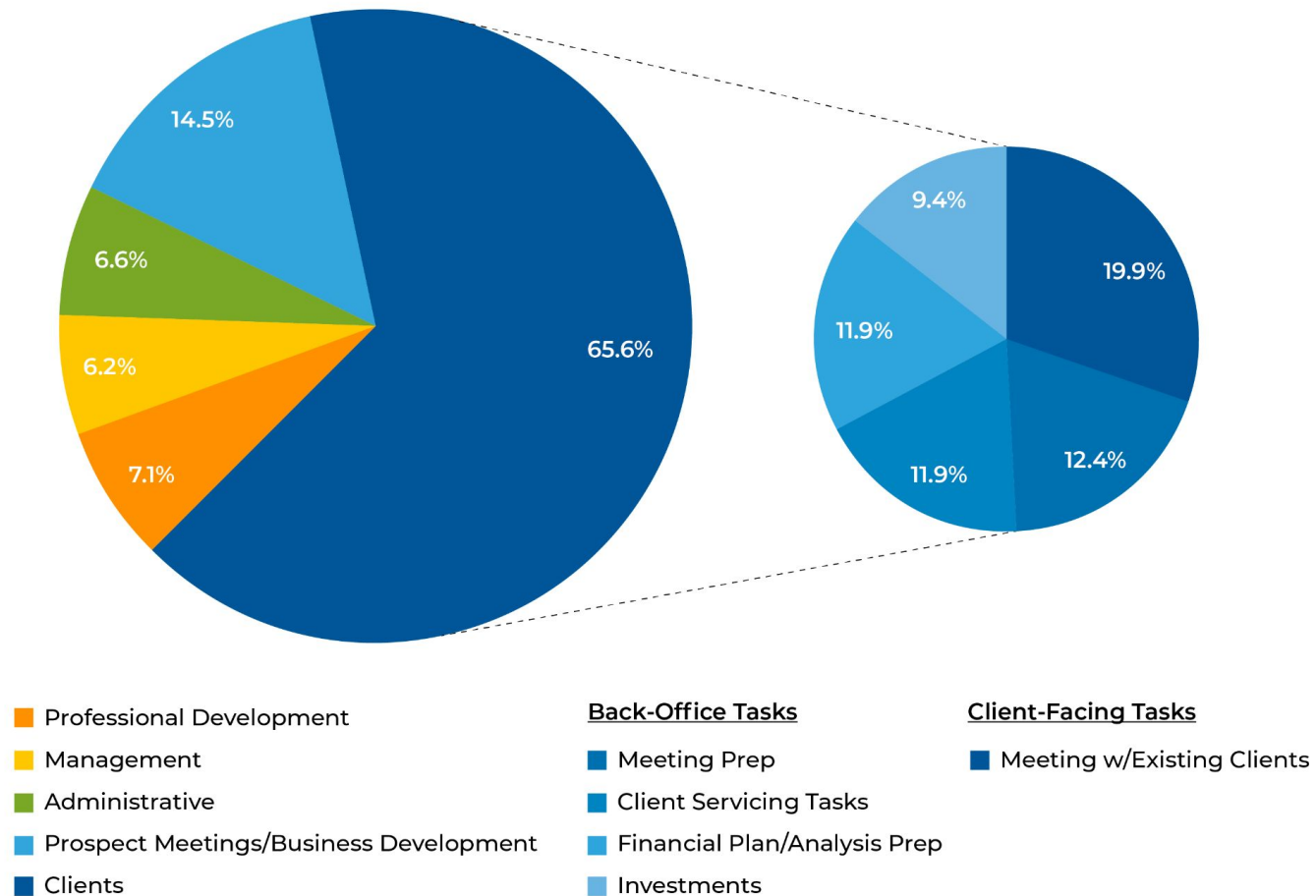


#1 rated analysis tool,
3 years in a row



Current paradigm

Hours Spent By The Typical Financial Advisor
Across Various Weekly Tasks

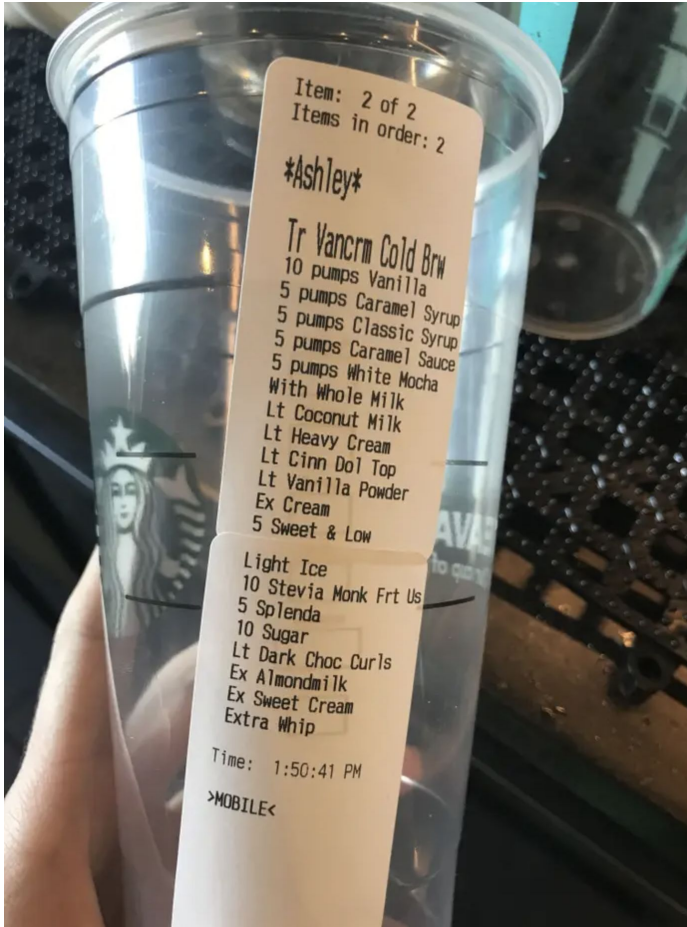


Disruptive technology to yield better outcomes

PwC's 2023 Global Asset and Wealth Management Survey and 2027 projections reveal how shifting investor expectations will disrupt the status quo. For industry players, the choice is simple—**adapt to the new context or fail.**

Nearly 90% of institutional investors surveyed by PwC believe the use of **disruptive technologies** (including big data, AI and blockchain) will lead to better outcomes and returns from their portfolio. Despite widespread investment and deployment of these technologies, this is the area of investor expectation that asset managers continue to find most challenging.

Shifting client expectations are disrupting the status quo

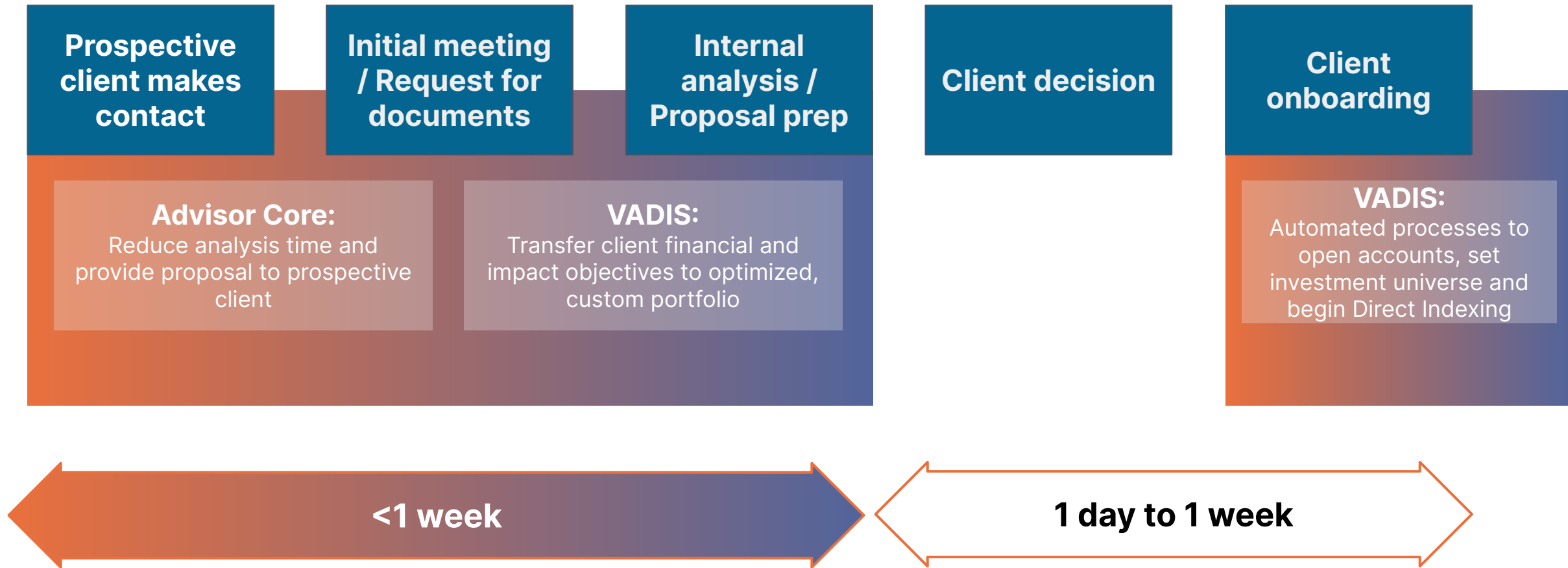


60% of all Starbucks orders are customized to the individual customer



The Ikea Effect

Speed + Investment Strategy + Proposal = Growth



Understanding Direct Indexing

What is direct indexing?

- Direct indexing “attempts to replicate the performance of an index by purchasing the underlying individual equities instead of using an ETF or mutual fund in an investor's portfolio”*. Custom direct indexes are personalized based on an investor’s financial circumstances and impact preferences and can be adjusted as an investor’s circumstances change. Our Values-Aligned Direct Index Solution is a custom direct index solution.

Does this mean my client has to own every stock in the index?

- No. Using sophisticated optimization techniques, we can replicate the performance of an index, custom benchmark, or model with a subset of securities – and incorporate client-specific impact preferences and tax and transition considerations.

Is direct indexing new?

- No. Direct indexing has been around for decades. Technology advances and industry conditions, including zero commission and fractional share trading, have made custom direct index solutions accessible to a broader range of investors.

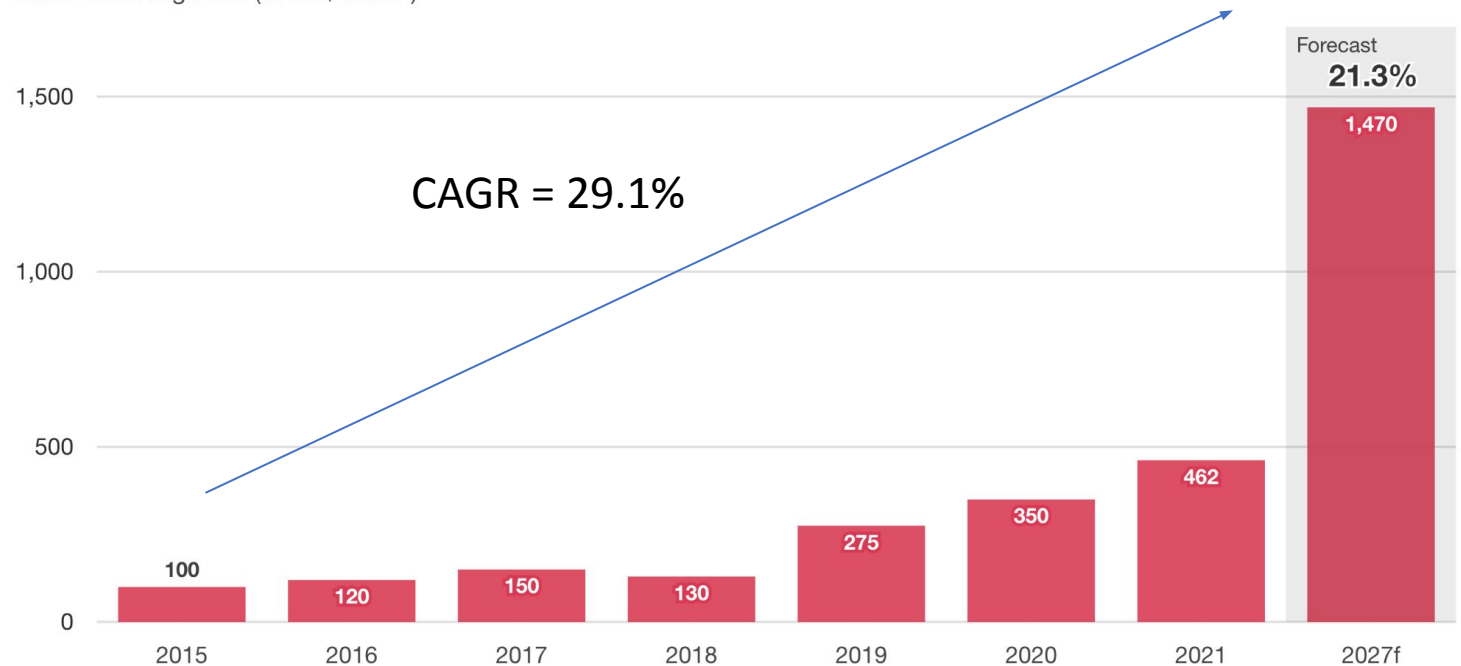
Direct Index AUM Expected to Triple by 2027

- Direct index AUM grew 29.1% from \$100 billion in 2015 to \$462 billion in 2021.
- Assets are set to triple to \$1,470 billion by 2027.
- Direct indexing has been around for a while but was reserved for institutions and the wealthy due to its complexity and cost.
 - Technology advances and shifts in investor psychology have reduced barriers.

Direct indexing AuM is expected to more than triple by 2027

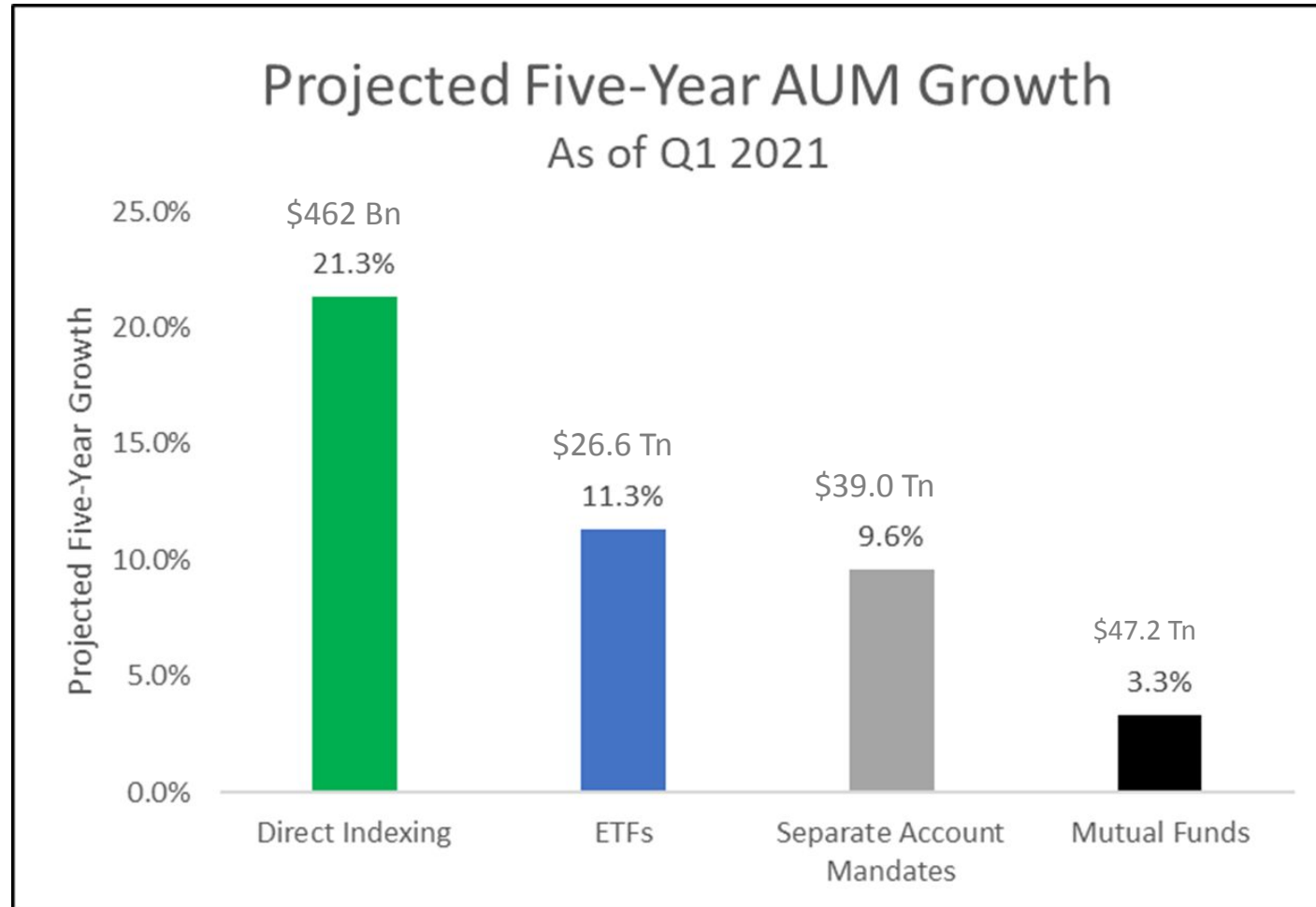
CAGR 2015 to 2021 = 29.1%

Direct indexing AuM (in US\$ billion)



Sources: PwC Global AWM & ESG Research Centre, PwC forecasts based on historical data from Cerulli Associates

Direct indexing is essential in delivering personalization clients now expect

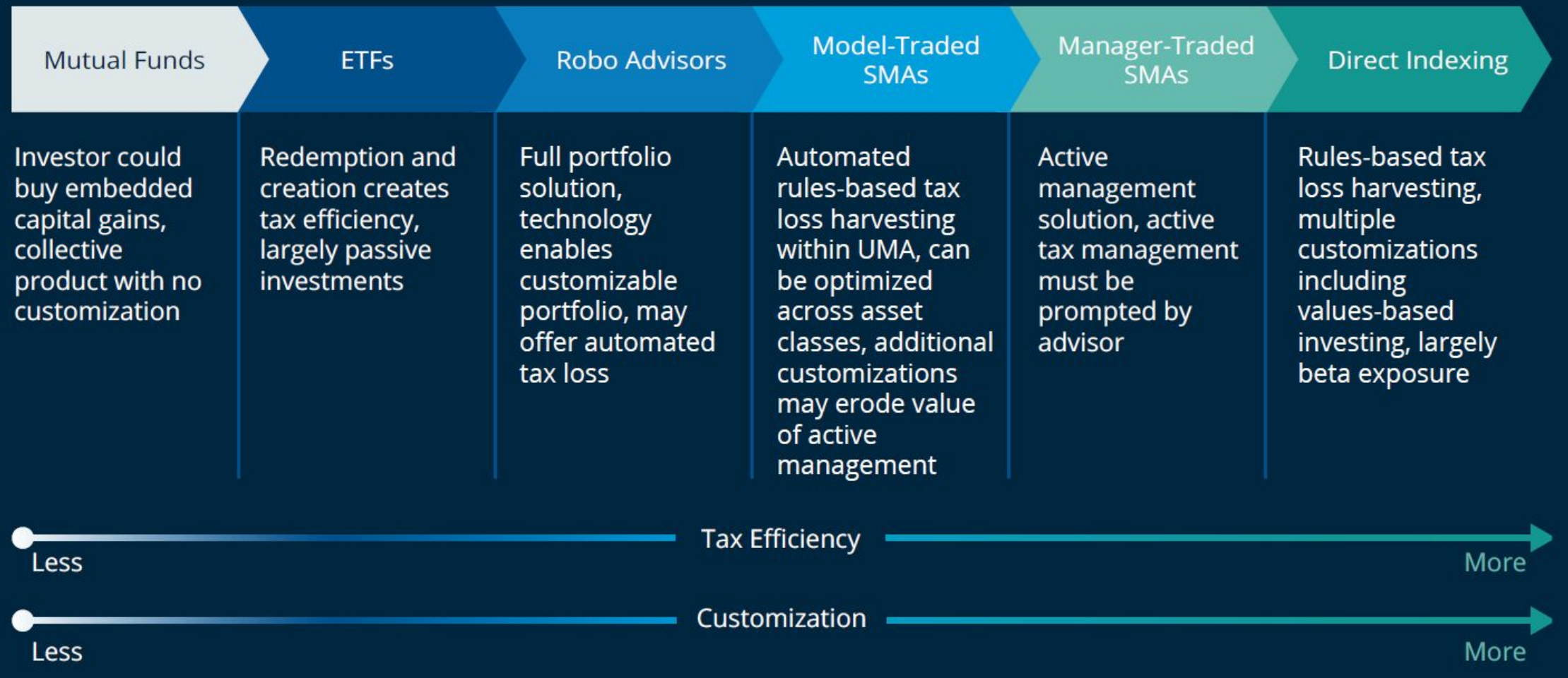


Notes: The numbers above the percentages are estimated global AUM as of 12/31/2022; direct indexing AUM are estimated as of 12/31/2021 by Cerulli Associates.

Source: PwC Global AWM & ESG Research Centre, Refinitiv Lipper, Preqin; direct indexing forecast are based on historical data from Cerulli Associates.

Product Tax and Customization Features

Tax Management and Customization Features of Retail Asset Management Solutions, 2021



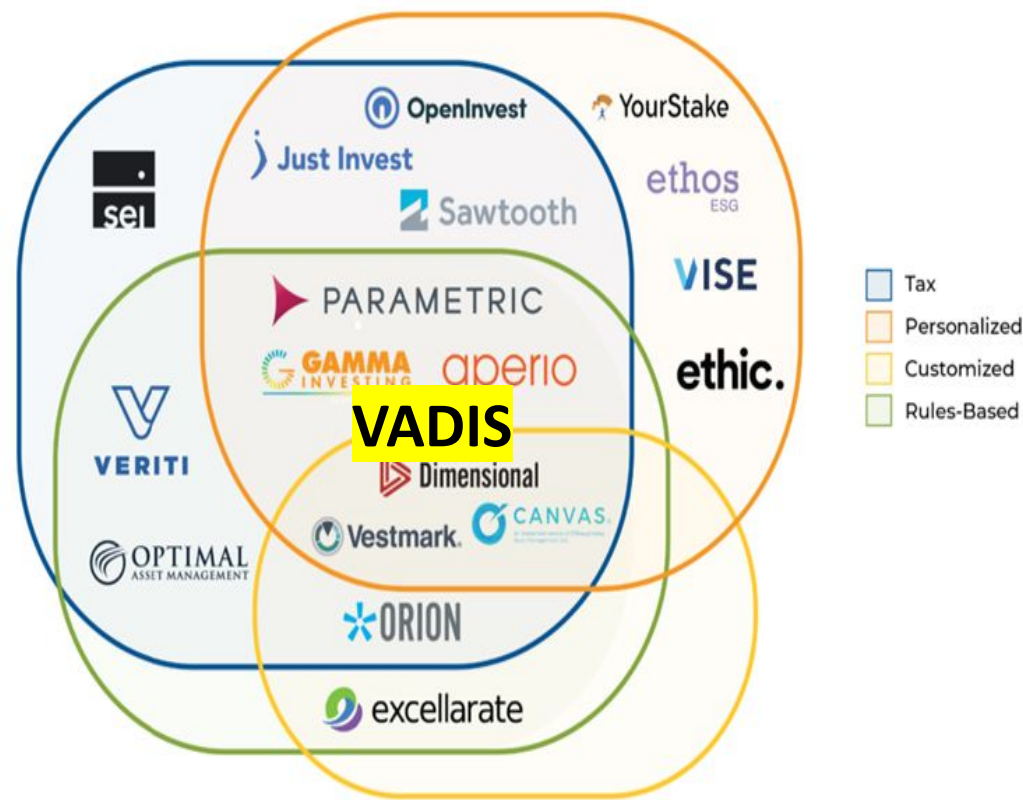
The Four Types of Direct Indexing and Technology Solutions for Advisors

The Four Types Of Direct Indexing

	Tax-Focused	Personalized	Rules-Based Strategies	Customized Portfolios
Uses	Tax Loss Harvesting	Environmental, Social, Governance (ESG)/ Socially Responsible Investing (SRI)	Factor-Based and Other Custom Advisor-Driven Investment Strategies	Investing Around Concentrated Stock Positions
	Capital Gain Harvesting			
	Charitable Giving	Other Personal Client Investment Criteria		Compensating for Company- or Industry-Based Human Capital Risk
Client Types	Planning to Bequeath Taxable Investments at Death	Seeking to Adjust Investments Based on Client's Own Values or Personal Preferences	Using Advisor-Driven Smart-Beta-Style Investment Strategies	Holding Large, Highly Appreciated Stock Positions
	Years With Low Income			Human Capital and Wealth Concentrated in a Single Company or Industry
	Planning to Donate Appreciated Investments			

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Direct Indexing Platforms



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Values-Aligned Direct Index Solution (VADIS)

- A revolutionary integration of SRI thought leadership, trusted and personal financial advice, and scalability empowered by technology
- **Starting investment: \$25,000**
- Fees: 36 BPS
- Automated client financial and impact assessment, account opening, portfolio construction and implementation, reporting
- Facilitates mass customization of portfolios and drives growth and assets towards positive impact

Transparency

Deliver
Financial and
Impact
Performance

Building the VADIS
investment universe

Meeting clients impact and
financial objectives

Portfolio Structural Integrity



Values-Aligned Direct Index Solution

Initial Blended Benchmark Universe
3,303 Stocks

Impact Preferences

Client-Specific Investment Universe
2,601 Stocks

Portfolio Optimization

Values-Aligned Direct Index Solution
229 Stocks

Optimal Values-Aligned Direct Index Solution

Holdings Summary

Pat Prospect			
Manager:	NA	Broker Firm:	NA
Total Securities:	229	Total Share Lots:	229
Total Market Value:	\$3,411,199.00	Holdings Date:	Nov 16, 2023
Optimal Tracking Error:	1.33	Available Cash:	\$68,224.25 2.00%
Target Strategy:	BBM_DXSIS Moderately Aggressive (76.5 ACWI:23.5 AGG)		

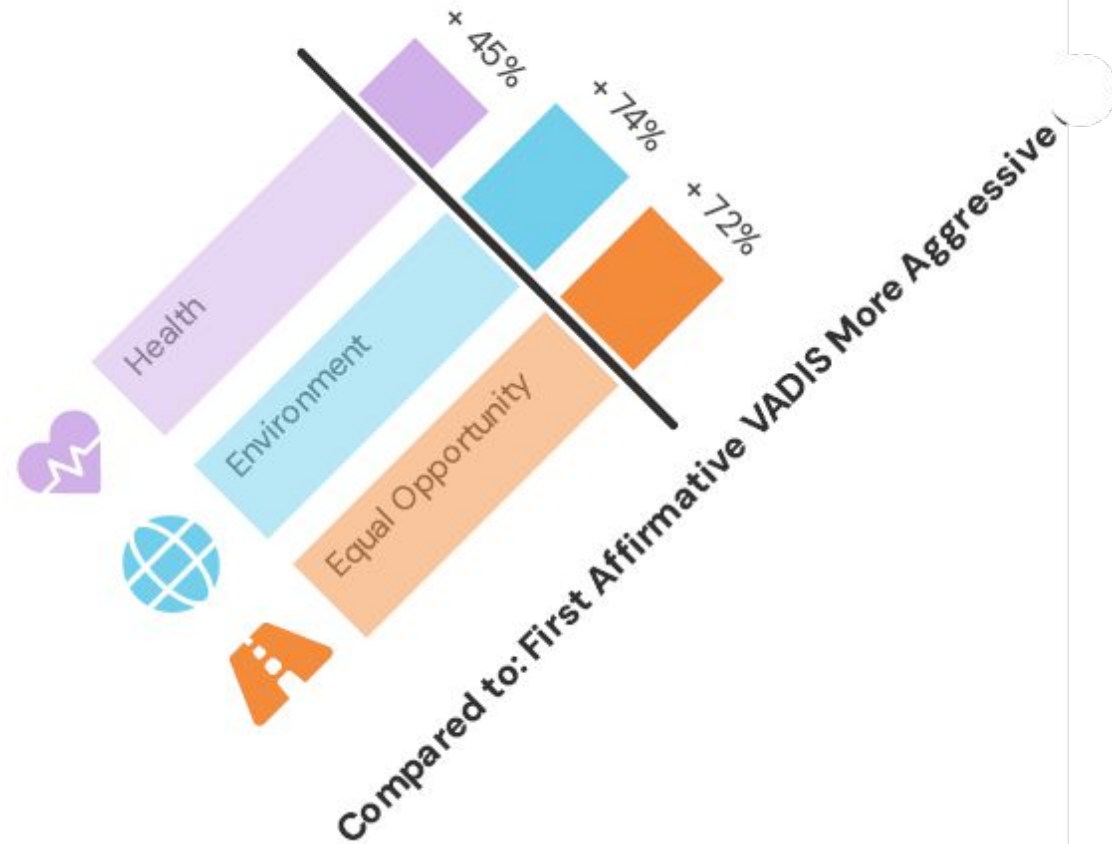
Risk Decomposition

Account ID: 54375		Batch Name: 3296_54375	
Initial Factor Tracking Variance	204.24	Optimal Factor Tracking Variance	0.28
Initial Stock Specific Tracking Variance	1.76	Optimal Stock Specific Tracking Variance	1.49
Initial Total Tracking Variance	206.01	Optimal Total Tracking Variance	1.77
Initial Tracking Error	14.35	Optimal Tracking Error	1.33
Total Portfolio Risk - Initial	0.00	Total Portfolio Risk - Optimal	14.36
Initial R-Squared	0.00	Optimal R-Squared	0.99
Total Target Risk	14.35		

Will VADIS meet your client's impact objectives?

High-Level Comparison Methodology

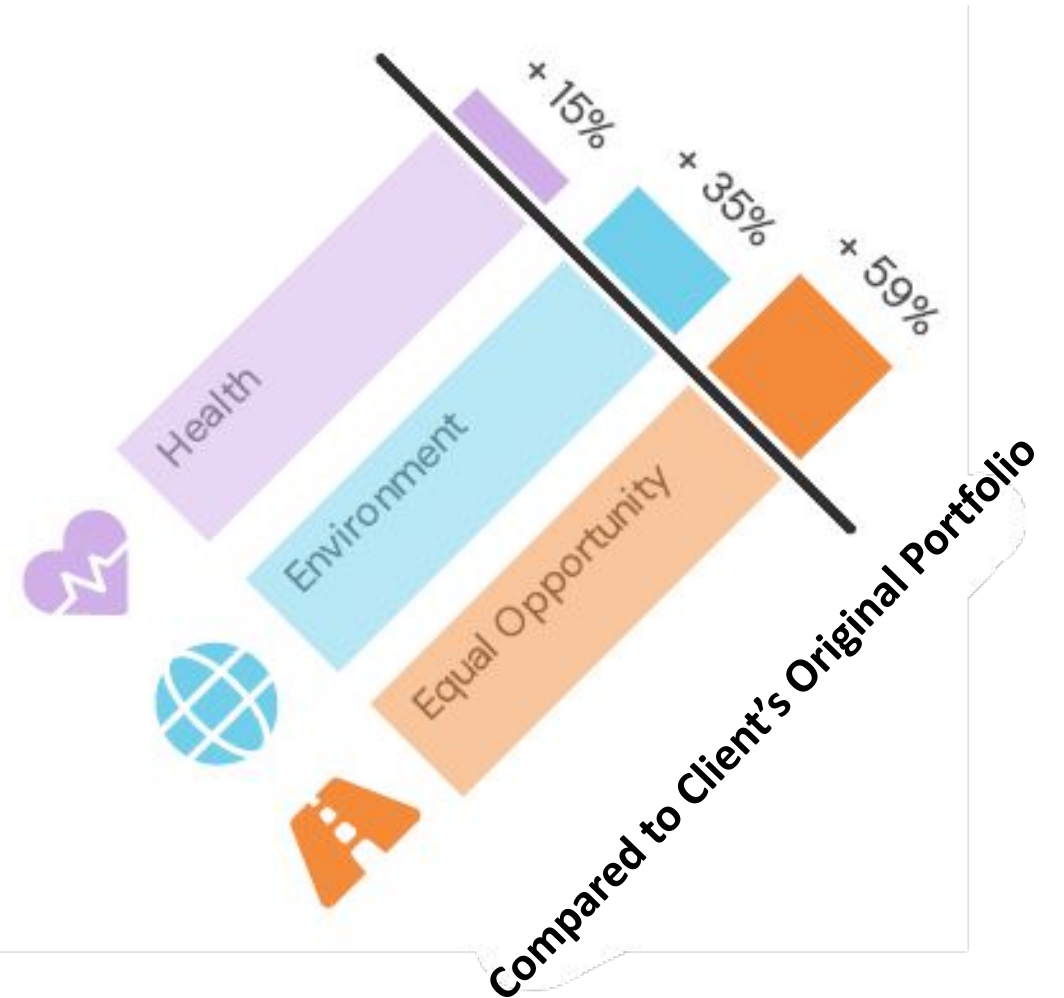
Impact data on corporations is collected from more than 100 publicly available sources and grouped together into five main categories -- Environment, Human Rights, Equal Opportunity, Health, and Accountability. The particular "issue areas" for a client's report are filtered based on their impact objectives. Overall aggregations by issue area are compared to the benchmark.



How does the VADIS compare with the client's original portfolio?

High-Level Comparison Methodology

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Will the VADIS meet your client's financial objectives?

To answer this question, First Affirmative assesses structural integrity from the following perspectives to ensure portfolio diversification and alignment with the client's financial goals:

1. Sector



2. Geographic Region



3. Style



4. Risk and Return



Values-Aligned Direct Index Solution

Structural Integrity

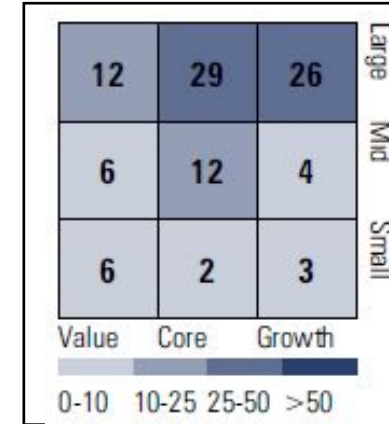
Overview

229 Holdings
Std in line with BM
US Stock – 60.60%
Non-US – 16.29%
Bond – 19.68%
Cash – 3.41%
Other – 0.01%
Large Cap – 67%
Mid Cap – 22%
Small Cap – 11%
Value – 24%
Core – 43%
Growth – 33%

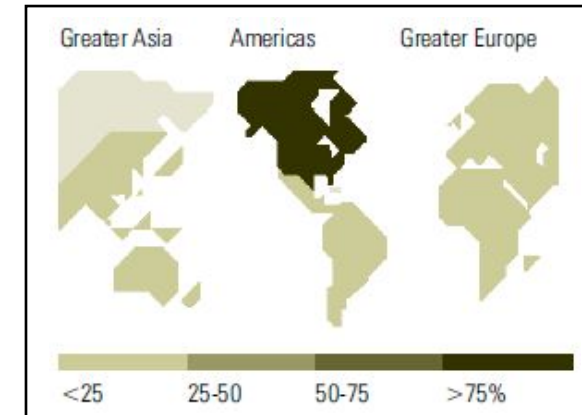
Sector Exposure

	Portfolio %	Bmark %
Defen	22.93	21.52
Cons Defensive	9.29	7.10
Healthcare	13.57	11.78
Utilities	0.07	2.64
<hr/>		
Sens	46.62	45.75
Comm Svcs	10.95	7.54
Energy	0.00	5.20
Industrials	9.42	10.11
Technology	26.24	22.90
<hr/>		
Cycl	30.45	32.73
Basic Matls	1.65	4.31
Cons Cyclical	7.06	10.85
Financial Svcs	18.05	15.27
Real Estate	3.70	2.30
<hr/>		
Not Classified	0.00	0.00

Style Exposure



Regional Exposure



Advocacy and Impact

A closer look at proxy
voting



Tools for Active Ownership

Proxy Voting

- First Affirmative Proxy Voting Guidelines
- ESG Subcategory Results
- Leveraging Proxy Voting in a VADIS Portfolio

Industry Comparison

Why we do what we do



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Home > News & Analysis > BlackRock opposed 93% of E&S proposals globally in 2023 proxy year

News & Analysis

BlackRock opposed 93% of E&S proposals globally in 2023 proxy year

US investment giant bemoans 'continued' decline of quality of proposals in voting spotlight.

Paul Verney - 23 August 2023

Advocacy, Impact, and Proxy Voting



We view proxy voting and advocacy as the impact of ownership. We stand by the values we share with our clients and do the work to make a difference.

Your shares give you a vote and a voice

First Affirmative makes it easy for your vote to be counted and your voice to be heard.

Committed to Proxy Voting

Proxy Voting Guidelines

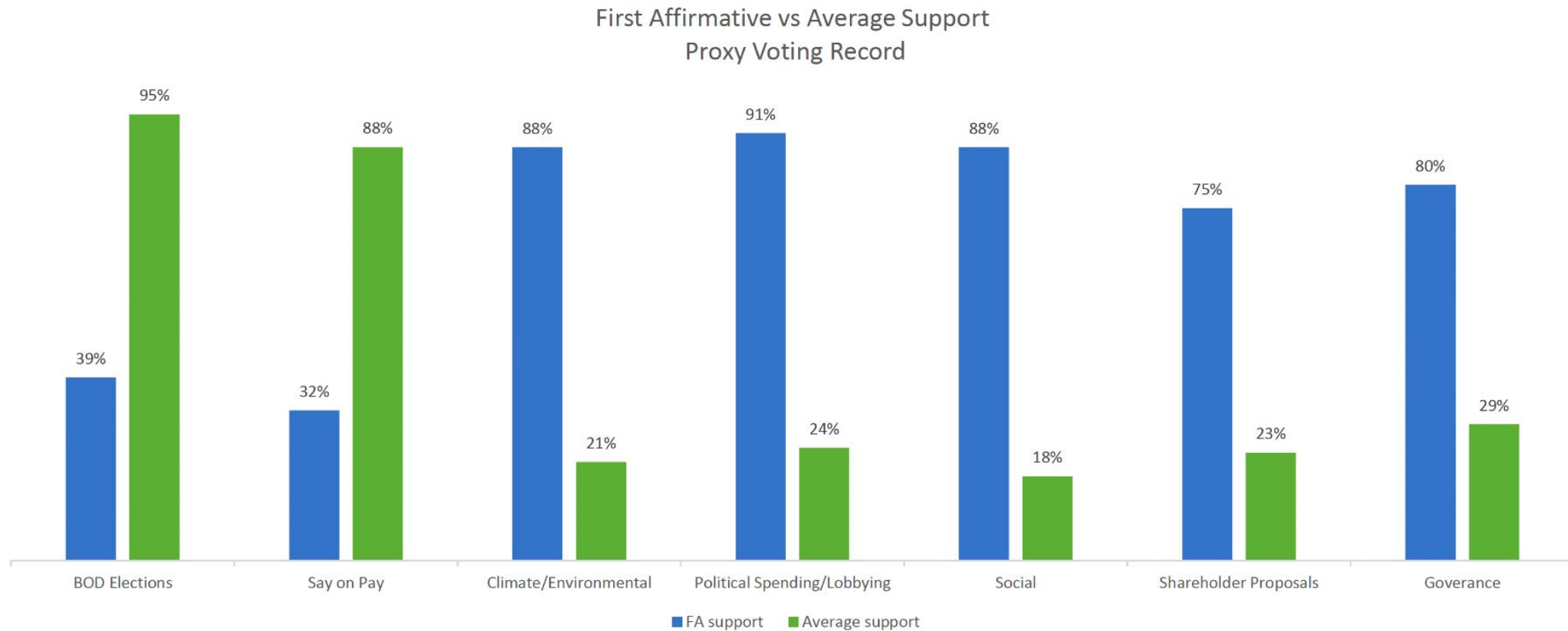
First Affirmative has developed Proxy Voting Guidelines to:

1. Support the implementation of best corporate practices that are grounded in ESG principles, and
2. Discourage corporate behavior that may result in financial gain for a company by the improper transfer of cost and risk to the detriment of society, the broad economy, and our client portfolios.

2022-2023 Proxy Voting Results

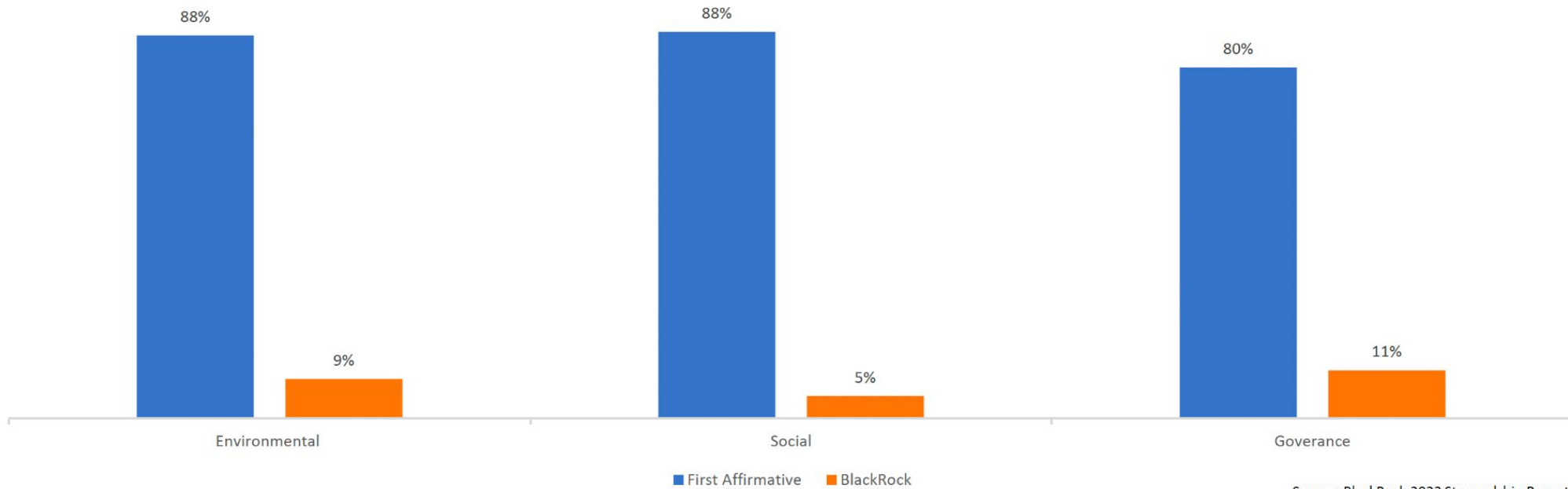
- 2,500 Meeting Voted
- 26,002 Proposals Voted
- **Voted Against...**
 - 63% Executive Compensation
 - 40% Management
 - 39% Board of Directors
- 779 Shareholder Proposals Voted,
 - Supported 75%

Industry Comparison First Affirmative vs Average Support



Industry Comparison First Affirmative vs BlackRock

First Affirmative vs BlackRock
ESG Proxy Voting Results



Source: BlackRock 2023 Stewardship Report

VADIS as a Journey

Quo vadis?

Article [Talk](#)

From Wikipedia, the free encyclopedia

This article is about the Latin phrase. For other uses, see [Quo Vadis \(disambiguation\)](#).

Quo vadis? (Classical Latin: [kʷoː 'waːdɪs], Ecclesiastical Latin: [kwo 'vadis]) is a Latin phrase meaning "Where are you marching?" It is also commonly translated as "Where are you going?" or, poetically, "Whither goest thou?"

How you can start using VADIS

Schedule a meeting with a member of our team to find the next best step on how to bring Direct Indexing to your clients.

Starting investment: \$25,000

Fees: 36 BPS

Full customization at all investment levels

Proxy Voting Aligned with YOU

Multi-Custodian Platform



**Scan here to
schedule demo**