BKLN

BROOKLYN
INVESTMENT
GROUP

Custom Direct Indexing
A.I.-powered scalability for advisors

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Brooklyn Investment Group

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Our team of 20+ includes quant PhDs, software engineers, machine learning researchers, and trading engineers

Goldman Sachs · BRIDGEWATER · PIMCO · BlackRock · CREDIT SUISSE · CapitalOne · citibank

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Direct Indexing: A quick history

A three decade old portfolio concept:

1992 - Direct Indexing (DI) launched with first account created by Parametric Portfolio Associates for institutional clients who had unique needs and also wanted to include ESG considerations[1]

1992-2000s - DI initially offered only to institutional investors and later high-net worth family offices for its appealing customization and personalization[2]

2010s - DI begins to move down market and adoption grows among advisors

1. https://blogs.cfainstitute.org/investor/2021/11/08/the-mirage-of-direct-indexing/
2. https://www.lseg.com/en/insights/ftse-russell/whats-behind-direct-indexings-slow-rise-overnight-success

Direct Indexing: What made it possible?

Technology - Asset Managers adopted platforms to launch index SMA's with ability to manage for tax efficiency

Lower costs - Automation with the potential to lower the cost and the entry minimum for investor

Improved tracking for optimal positioning & tax loss harvesting - Advisors now have ability to track positions not just at security level but at the the tax lot level, enabling them to optimize tax management

Direct Indexing: What's the appeal?

Customization - DI SMAs are appealing for their overall higher degree of customization compared to ETFs and Mutual Funds

Tax Loss Harvesting - Ability to harvest tax losses on individual constituent level thereby offsetting other capital gains on tax returns

Specific Values - Ability to tailor for ESG and/or non-profit or other investor specific values

Lower Costs - Automation keeps costs more controlled

Cerulli Associates expects direct indexing to grow at a 12% annualized rate and to end 2026 with $825 billion in total assets, up from $462 billion in 2021.

FINANCE

JPMorgan is buying fintech start-up 55ip to help financial advisors offer tax-efficient portfolio

PUBLISHED WED, DEC 2 2020·4:30 PM EST | UPDATED WED, DEC 2 2020·6:

Reuters — World ∨ Business ∨ Markets ∨ Sustainability ∨ Legal ∨ Breakingviews ∨ More ∨

Business

BlackRock to buy Aperio for $1.05 billion from Golden Gate Capital, employees

By Reuters

ated 4 years ago   Aa <

Reuters — World ∨ Business ∨ Markets ∨ Sustainability ∨ Legal ∨ Breakingviews ∨ More ∨

Asia Pacific

Morgan Stanley to buy Eaton Vance for $7 billion in investment-management push

By **Niket Nishant** and **Matt Scuffham**

October 8, 2020 10:20 AM CDT · Updated 4 years ago

BNY Mellon's Pershing to Acquire Optimal Asset Management

December 03, 2021 — 09:12 am EST

Written by **Devina Lohia** for **TipRanks** →

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1. Firm Overview

Scaling personalization

Personalization and tax loss harvesting are new alphas that can potentially improve client outcomes, but they come at significant effort and cost of portfolio management resources

Technology is the new wrapper – SMA/UMA business will be one of the main strategies for wealth management, displacing mutual funds and ETFs for the mass affluent

Competition is increasing resulting in a need for advisors to improve their efficiency - allowing focus on client acquisition and service rather than administration

Scalability *will separate winning advisors from the competition*

What We Do

Multi-asset direct indexing

Managed accounts platform enables advisors to:

1. **Customize** each client portfolio leveraging indices, manager-curated models/strategies, ETFs or mutual funds

2. **Tax-manage** and easily handle lifecycle events, concentrated position selldowns, etc.

3. **Report** daily after-tax performance for portfolios and client-specific benchmarks
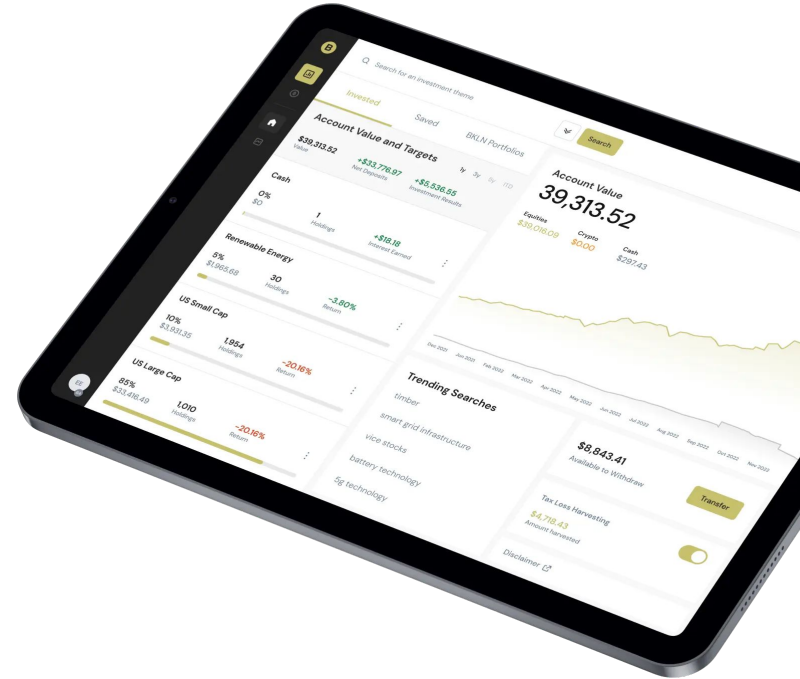
Brooklyn's white-label platform is used both by financial advisors and asset managers serving financial advisors

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Key Differentiators & Benefits

	Differentiator	Benefits to Advisor	Benefits to End Client
1.	**Whole portfolio** - equities, fixed income, ETFs, and mutual funds - in a single custodian account	Eliminate workflows associated with rebalancing and managing cash flows to unlock time and cost savings	Potential for greater portfolio efficiency, tax and fee savings
2.	**Intuitive advisor portal** to customize and manage all accounts	Customize and manage each portfolio to enable scalable personalization	Person investment objectives accurate reflected in the portfolio
3.	**Daily monitoring** for tax-loss harvesting, rebalancing, and lifecycle events	Peace of mind that every portfolio is monitored every business day	Potential for greater tax alpha and tracking of investment objectives
4.	**Automated concentrated position management** and handling of other common client situations	Add value via automated tax-neutral selldown programs for appreciated positions	Diversify out of concentrated risks in a tax-aware way
5.	**After-tax performance dashboard with daily reporting** and attribution for portfolio, benchmark and adjustment benchmark	Demonstrate ongoing value creation in portfolio reviews to help elevate client engagement and build trust	Precise understand of portfolio performance and the value added by the advisor
6.	**Multi-asset transition analyses** for prospects and clients	Effectively communicate investment tradeoffs and set expectations	Comprehensive understanding of transition tax costs and roadmap

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Key Differentiators & Benefits (cont'd)

	Differentiator	Benefits to Advisor	Benefits to End Client
7.	**A.I.-powered custom index creation** with point-in-time backtesting	Design tactical tilts or cater to thematic investment interests to create engagement or seek potential performance gains	Ability to invest in new themes that do not have pre-packaged ETFs or mutual funds
8.	**Enhanced direct indexing** using 130/30 portfolios and overlays	Help solve demanding investment problems to further differentiate your practice from competitors	Resuscitate tax-loss harvesting in "frozen" portfolios, accelerate tax-neutral selldowns
9.	**Algorithmic trading**	Add value in trade execution through automated algo selection	Potential for enhanced performance through execution alpha

Asset class capabilities

Brooklyn's multi-sleeve architecture enables the management of a broad range of asset classes within a <u>single</u> custodian account:

1. **US listed equities** including fractional shares, when enabled by custodian

2. **Foreign ordinary shares** when enabled by the custodian

3. **Fixed income** through partnership with Nuveen; DIY fixed income capabilities under development

4. **Long/short strategies** with a choice of stock selection algorithms, either proprietary or factor-based

2. Advisor Portal

Performance, account values, strategies, and other information are shown for illustrative purposes only. Actual performance, account values, strategies and other information will vary.

Advisor Portal

Client onboarding

Quickly onboard each client...

... and set client-specific investment restrictions

Basic Portfolio Building Blocks
Third party indices and curated satellites

Easily create a direct indexing portfolio using:

- Third-party building blocks
    - Indices
    - ETFs

- Curated expert portfolios
    - Timely tactical tilts
    - Emerging investment themes
    - Green and impact themes

Set target allocation for each client or allocate clients to model portfolios
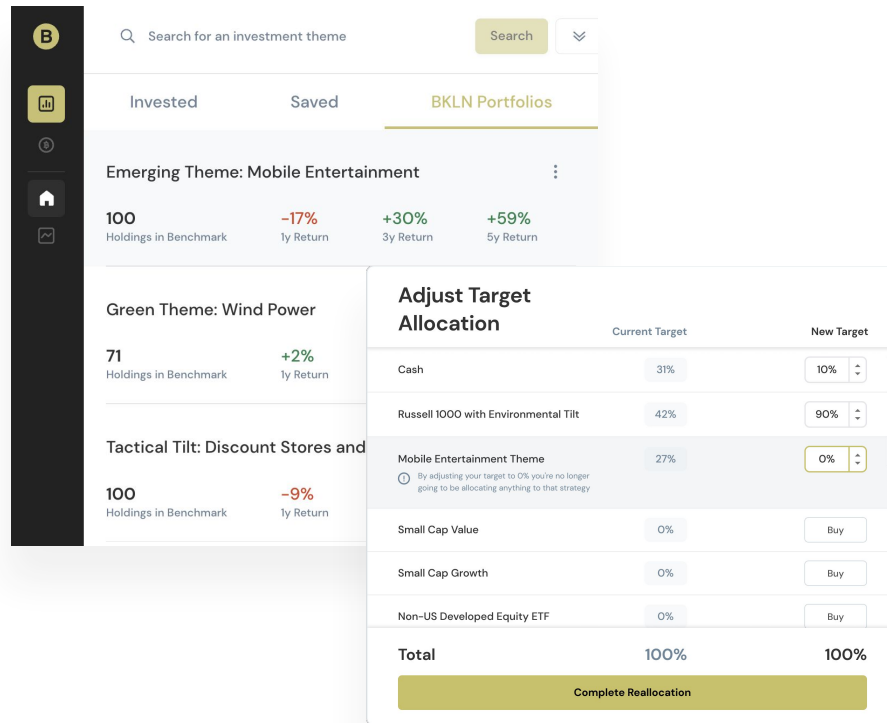
Custom Portfolio Building Blocks

A.I. powered indices

Create custom thematic portfolios with our A.I. powered search:

- Flexibly restrict the investment universe (e.g., index or ETF constituents)

- Apply industry / sector exclusions

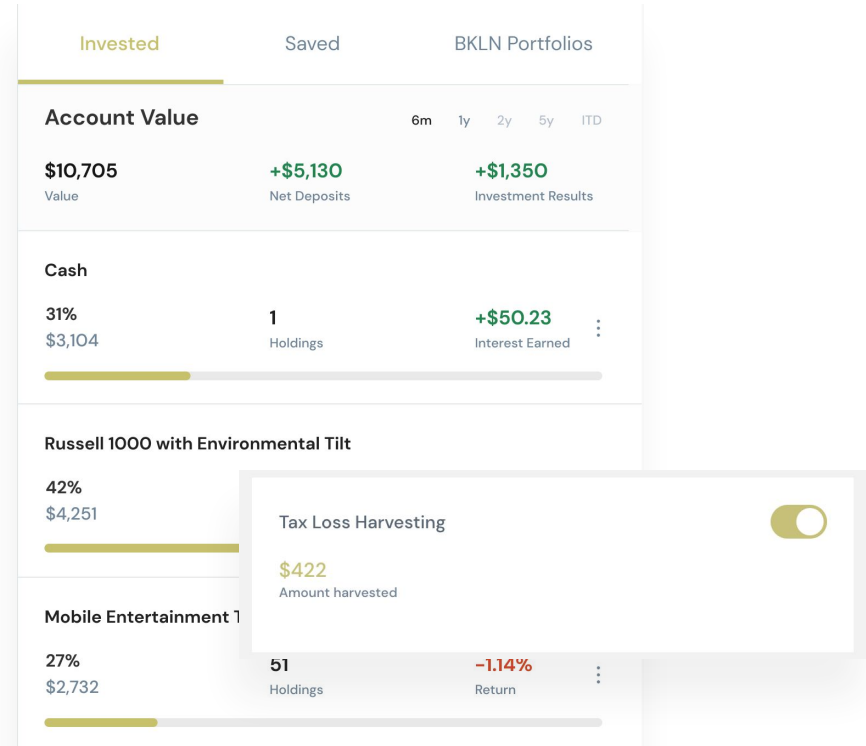- Incorporate ESG views

- Interactively add or delete stocks

Portfolio optimization and point-in-time backtesting with easy comparisons to tickers or saved portfolios

Automated Portfolio Management
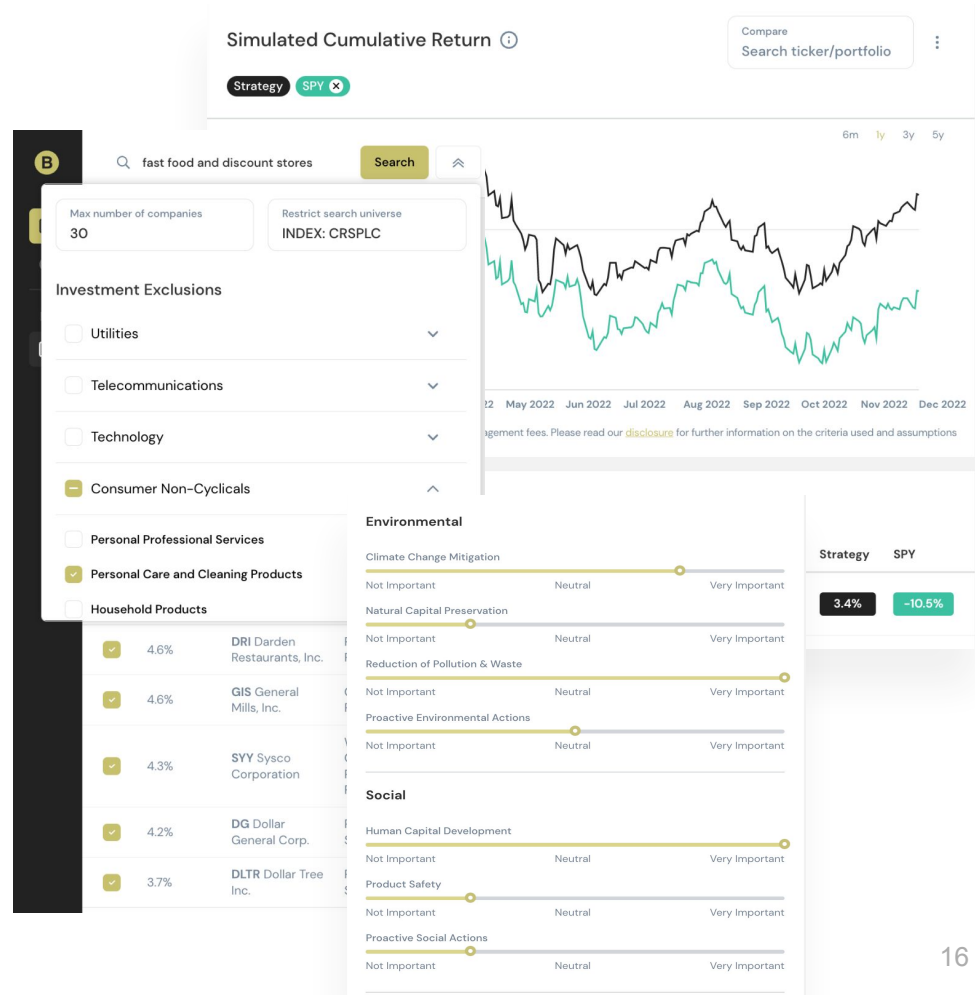
Rebalancing and tax loss harvesting

Enable automatic tax loss harvesting to **boost potential after-tax returns**, in both up and down markets:

- Daily monitoring for opportunities to harvest tax losses in individual stocks while maintaining desired portfolio properties

- Cognizant of transaction costs and wash-sale constraints

- Potential to add 1-4% to annual after-tax deferral returns from portfolios with losses and gains and offset up to $3,000 of other taxable income per year

Invested	Saved	BKLN Portfolios

Account Value 6m 1y 2y 5y ITD

$10,705	+$5,130	+$1,350
Value	Net Deposits	Investment Results

Cash

31%	1	+$50.23
$3,104	Holdings	Interest Earned

Russell 1000 with Environmental Tilt

42%	
$4,251	

Tax Loss Harvesting

$422
Amount harvested

Mobile Entertainment

| 27%	51	−1.14%
$2,732	Holdings	Return

Optimizing Portfolio Transitions

Impactful transition analyses

Manage portfolio transitions cognizant of tax implications and transaction costs:

- Tax-aware portfolio optimizer creates scenarios based on TE targets and/or tax budgets

- Intuitive charts to evaluate tradeoffs between tax costs and tracking error

- Actionable reports for client sales conversations
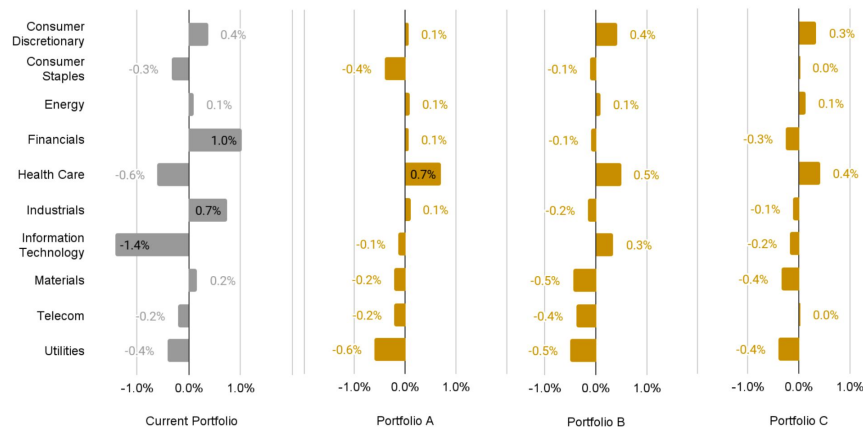
Whole Portfolio Performance
Daily after-tax reporting
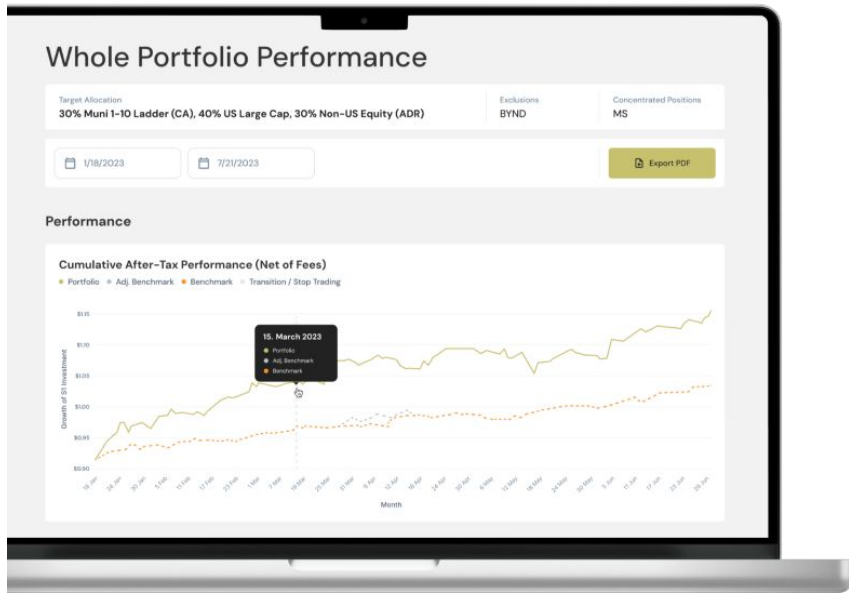
On-demand after-tax performance dashboard and in-depth reports for any date range:

- Portfolio

- Benchmark

- Client-customized (adjusted) benchmark

3. Q&A

Q&A

Disclosures

Disclosures and Risks

This presentation is provided for discussion purposes only, and describes an approach to providing investment advisory services for SMAs at scale. There may be technical and other limitations to that scale, including unforeseen effects of increased volume. Further information is available on request.

This presentation is not to be construed as an offer to sell or the solicitation of an offer to buy any security or to provide investment advisory services. Any such offer or solicitation can only be made by means of the delivery of a confidential private offering memorandum or of a contract for investment advisory services or other services, together with appropriate disclosures.

The information herein should be evaluated by trained investment management professionals. All investment strategies run the risk of loss, including those facilitated by AI and other technologies. Technologies can fail to perform as designed. There can be no guarantee that the portals described herein will deliver the advantages described in this presentation.

The results of backtesting and other simulations may vary from actual results. Models used by BKLN have inherent limitations, including the possibility of design and data input errors. Our models may fail to keep up with changes in markets and the behavior of market participants over time. Risks of unintended errors and malfunctions are inherent in each component of the programming process.

Operational alpha depends on the adoption of the portal.

Disclosures and Risks (cont'd)

Tax loss harvesting only applies to taxable investment accounts and has certain limitations. Specific regulations put in place by the Internal Revenue Service can prevent the sale of a security at a loss and repurchase of the same or substantially identical security shortly before or after. Losses from such sales, also known as "wash sales" are not deductible in many cases.

Strategies for tax loss harvesting may only result in deferral rather than permanent savings in taxes. There are additional risks for those electing long / short strategies. These include market risk that can lead to loss due to the impact of general market movements. Additionally, long / short strategies have idiosyncratic risks due to company-specific factors that are generally not correlated with the broad market environment. Long / short strategy investors are exposed to short-sale risk that can amplify losses because the stock price appreciates. Lastly, the leverage aspect of long / short strategies can cause an unexpected interaction between longs and shorts or an improperly hedged portfolio. Embedded in this is a borrow rate risk for stocks that are thinly traded or less available for other reasons.