Custom Index Strategy Guide

The simple math behind the win-win-win effect of custom indexes for clients, advisors and RIA wealth management firms

by Mike Casciano

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What is an Equity Custom Index?

A quantitative investment strategy consisting of individual stocks selected from a defined universe or benchmark (e.g., the S&P 500 or Russell 3000), based on specific characteristics, a targeted number of positions, and detailed constraints to limit tracking error.

Custom Indexes can be licensed and maintained from an index provider and delivered as a security model. The index provider will conduct ongoing index maintenance (adjusting for corporate actions) and scheduled index reconstitution (adding or removing stocks).

Custom Indexes Create a True Win-Win-Win

Client Benefits

Provide efficient access to individual stock strategies

- Can lower the total cost of portfolios
- Tax-optimized portfolios
- Personalization of strategies aligned to the client's IPS

Advisor Advantages

Competitively differentiated value proposition for clients and prospects

- Stock models that align with advisor's investment approach
- Documentable tax-management
- Can deliver a higher probability of success for financial plans

Firm Enhancements

Offer a consistent and scalable advisor and client experience

- Improved operational efficiency
- Stronger competitive positioning
- Can be white-labeled or proprietary to create new revenue

Why Wealth Managers Are Embracing Custom Indexing

Lower Fees

Cost-effective alternative to traditional active management equity strategies that are also highly scalable

Enhanced Personalization

Individual equities allow for customization and tax optimization

Strategy Alignment

Custom indexes can be selected that have similar characteristics to the target investment models, delivering better consistency

Differentiation

Proprietary strategies can improve firm branding, offer a competitive advantage, and generate additional firm revenue

One Custom Index vs. Multiple Active Managers

Traditional Approach

Multiple managers can cancel out factor exposures/ alpha "bets"

Higher fees often reduce net returns

Complex management and reporting

Custom Index Approach

Complementary static factors in a single strategy

60-90% lower cost than traditional active management

Simple, efficient, customizable

How an Index Provider Creates and Manages Factor-Driven, Outcome-Based Custom Indexes

Starting Universe and Constraints

Select a Starting Market Cap Weighted Index and Apply Constraints to Develop the Framework

Weight Desired Characteristics or Factors

Quality, Value, Momentum, Yield, Volatility, Growth, Size, Etc.

Test, Refine and Repeat

Quantitative, Rules-Based Back Testing Allows for Iterative Refinement to Create the Desired Strategy

Ongoing Maintenance and Reconstitution

Quarterly or Semi-Annual Index Reconstitution and Daily Maintenance for Corporate Actions

Sample Equity Custom Index Strategies for Use Across Client Accounts

Built for Ease of Use, Supported by Expertise

License and White Label Options

Select and license an existing index, replicate an existing strategy or test and build proprietary custom indexes for a firm or team

Institutional Solutions

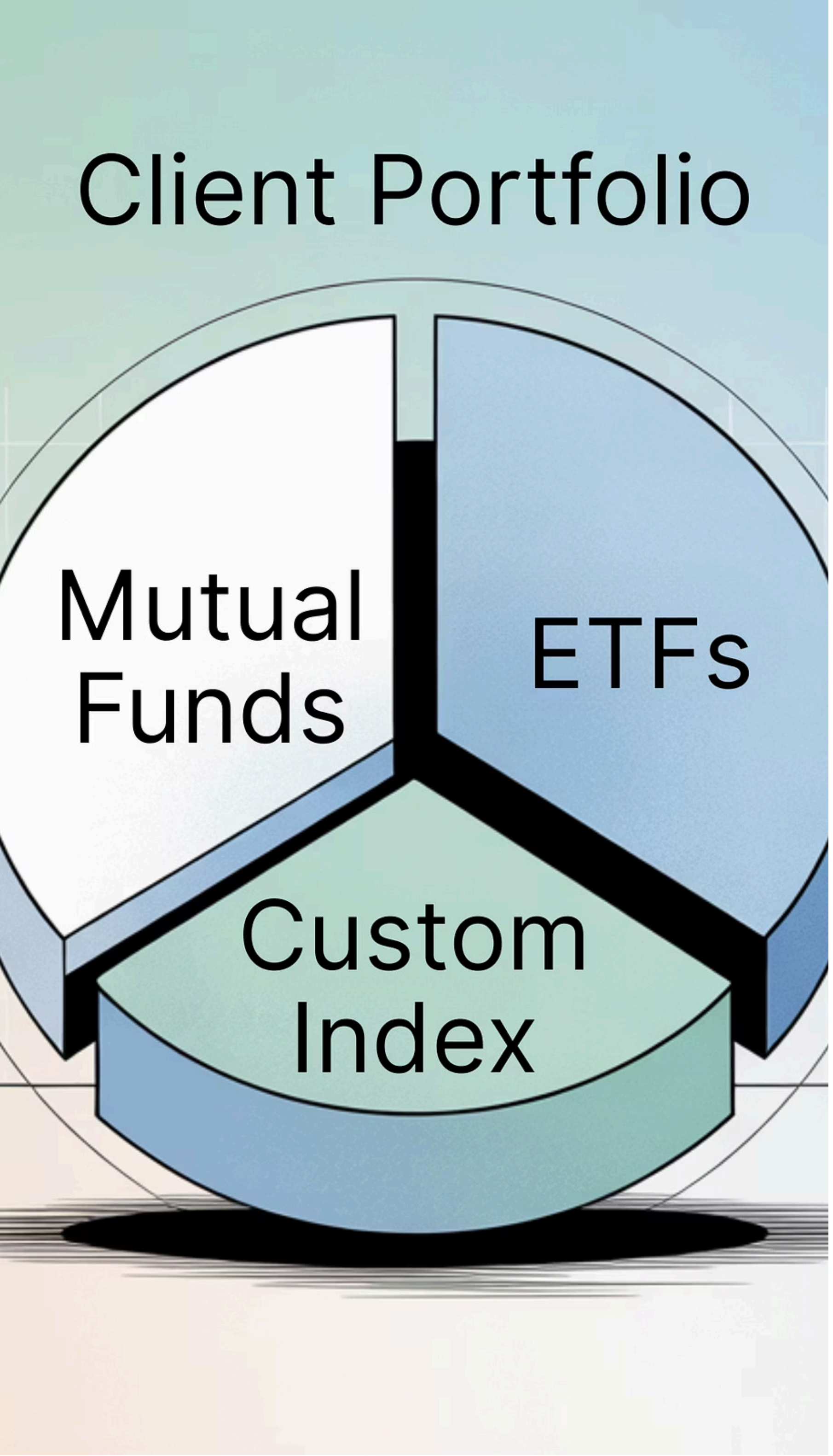
Index providers create, maintain, manage, and provide performance data for existing and proprietary custom indexes

Implementation Support

Multiple options for implementing strategies including creating proprietary ETFs for use across all accounts

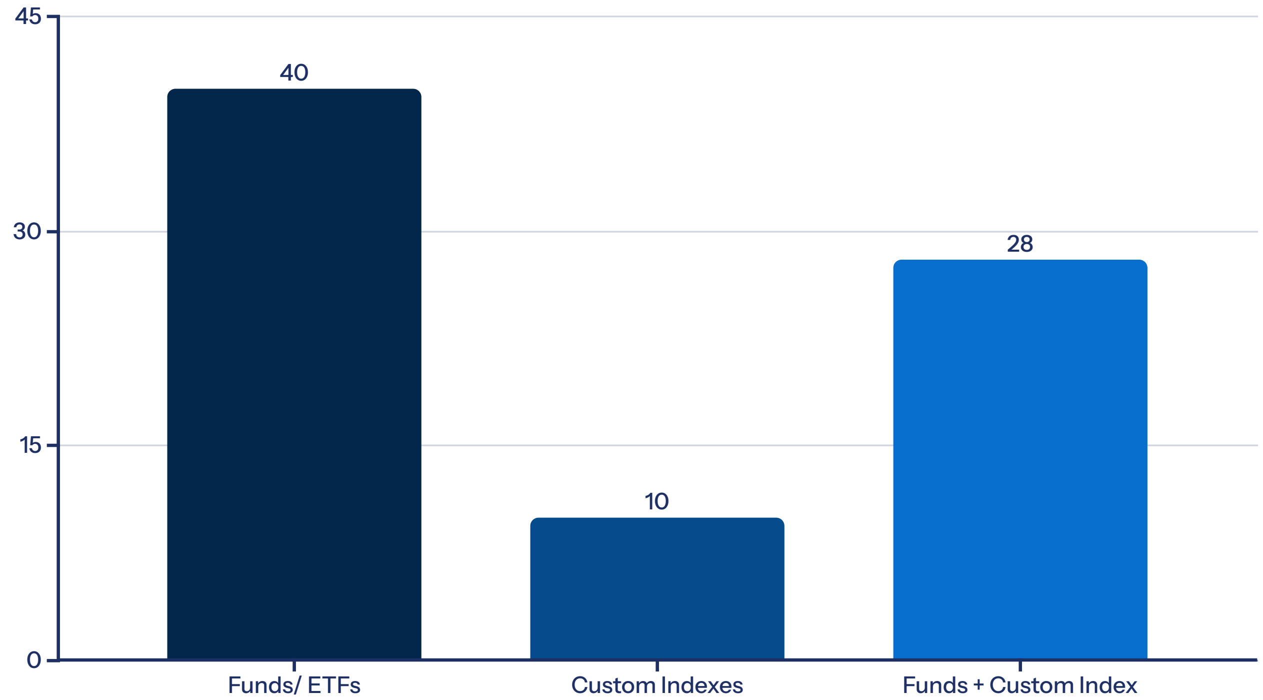
Why Now?

- Wealth Tech solutions now provide Automated Portfolio Overlay Management at a portfolio and household level to make this scalable, deliverable, and economically viable
- Improved custodial infrastructure and elimination of equity trading costs in client accounts
- The cost of index creation and servicing has also declined thanks to technology and increasing providers



Competitive Differentiation Through Total Cost

Blended Fund/ ETF Model Portfolio Combined with a Custom Index Can Lower Cost (in bps)



* Blended portfolio of 60% funds/ ETFs and 40% Custom Index

* Custom Index fees can vary from a few bps to much more based on strategy and investment process IP

Other Components of Total Cost

In Addition to Investment Fees

Tax Drag from Yield and Capital Gains (100-200 bps)

Advisory Fee (70-100 bps)

Adding Portfolio Overlay Management

Portfolio/ Household Overlay Management Fee (~10-20 bps)

Documentable Taxes Saved (~100-200+ bps *)

This Tax Alpha May Offset the Portfolio and Advisory Fees

* Based on average reported tax savings of leading industry providers and research reports for Tax-Loss Harvesting, Short to Long Term Gain Deferral, and Trades Deferred Through Optimization)

EVO Helps RIAs with Tech and Process Enhancements

Founded 2023

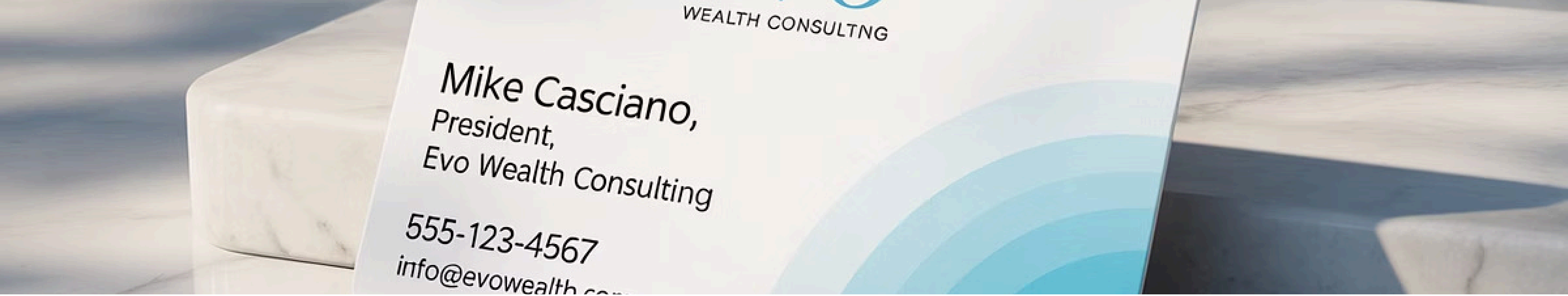
Work with RIAs to develop a custom activation playbook for process and tech implementation

Wealth Technology + Practice Management

20+ years of experience across advisory, wholesaling, consulting, and wealth technology working with 1,000s of advisors with BlackRock and Principal AM

Led by Mike Casciano

Developed BlackRock's Portfolio Consulting business, led strategy for 55ip partnership, at Principal built Proprietary Models, Custom Indexes and delivered to RIAs through Smartleaf AM



Let's Customize Your Future

Explore Partnership

Learn how EVO helps RIAs identify a best-fit approach and create an activation playbook for implementation

Educate Yourself

Evaluate index options and technology to easily implement custom indexes and more across a firm's investment platform

Schedule a Meeting

Evaluate philosophy, client segments, process and platform to identify best-fit strategies and explore benefits of custom indexes

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Schedule: https://calendly.com/mike-evo/30min

www.evo-wealth.com