OpenInvest®

Industry Glossary

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Backtest

Backtest is used in the calculation of Tracking Error. OpenInvest offers backtest lengths of 3, 4, or 5 years.

Direct Indexing

Direct Indexing is the direct purchasing of underlying stocks in an index, rather than through a fund.

Divestment

Divestment is a key part of ESG investing. OpenInvest's technology automatically divests your clients' portfolios from companies that violate their selected values. Outside of each Cause, advisors have the freedom to remove any security from the portfolio that the client desires.

Dynamic Custom Indexing (DCI)

Dynamic Custom Indexing is OpenInvest's proprietary technology that powers our ESG portfolios. DCI functions like direct indexing and replicates the market by purchasing the underlying stocks directly. Our algorithms add or remove companies based on your client's selected Causes, then dynamically rebalance the portfolio to maintain the benchmark. The end result is a way for your clients to invest in their values without sacrificing financial goals.

ESG Scoring Methodology

Each OpenInvest Cause is built from a set of indicators that result in an overall positive, neutral, or negative score for the portfolio. These indicators are constantly updated and backed by data from a variety of sources, ranging from market data aggregators such as Refinitiv, Asset4, and QADirect, to highly specific academic or industry research such as UMass Political Economy Research Institute, or the Global Canopy Initiative's Forest 500 ratings.

The specific methodology for scoring indicators varies across Causes and is made available to clients through Impact Reports. To give an example, the indicators for our Invest in Women Leaders Cause include the percentage of women on the company's board and executive team and the percentage of female managers. OpenInvest scores companies with significantly below average metrics as negative, around average as neutral, and significantly above average as positive.

Impact Reporting

Impact Reporting is an automated tool advisors can use to generate engaging reports for clients on an ongoing basis. For each Cause, the report demonstrates the proportion of positively- and negatively-scored holdings for the portfolio and converts performance into relatable, tangible insights – e.g. trees planted or miles avoided. Impact reporting is included with every ESG solution OpenInvest offers.

Index Fund

An index fund is a portfolio of stocks and bonds designed to mimic the risk and return of a particular market index, for instance the S&P 500. Though convenient and stable, index funds are rigid and unable to be customized, often containing companies that violate an investor's values.

Separately Managed Account (SMA)

Separately Managed Account. An SMA is a highly-customizable portfolio constructed of individual securities and powered by direct indexing technology. With SMAs, investors benefit from direct ownership of stocks and can participate in proxy voting.

Socially Responsible Investing (SRI)

Socially Responsible Investing is a sustainable investing strategy similar to ESG but generally focuses on exclusion only, while ESG investing involves both inclusionary and exclusionary measures. The particular methodology depends on the institution, and often the terms are used interchangeably.

Tax-Loss Harvesting (TLH)

Tax-loss harvesting is a method of reducing near-term tax burden by selling assets that have lost value in the past year. These losses can be used to offset capital gains in other investments, or to reduce taxable income. While using losses to offset income is capped at $3,000 per year, losses in one year can be carried forward indefinitely to offset income in future years. Taxes need to be paid eventually, but in the meantime the deferred money can be invested to generate returns.

Unlike traditional funds, Openinvest offers automated tax-loss harvesting at the individual security level, providing a low-cost service to advisors.

Tracking Error (TE)

Tracking error is the difference in returns between a portfolio and its benchmark. Tracking error is commonly used to determine how well a portfolio is performing, and is calculated as the standard deviation of the difference in returns of the portfolio and the benchmark over time.