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This brochure provides information about the qualification and business practices of Affinity Investment Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at (949) 660-6373, or by email at [josh.katz@aiallc.com](mailto:josh.katz@aiallc.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission, or by any state securities authority. Affinity Investment Advisors, LLC is registered with the Securities and Exchange Commission; being registered with the SEC does not imply a certain level of skill or training.

Additional information about Affinity Investment Advisors, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

March 30, 2023

# Material Changes

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There have been no material changes since our last brochure dated October 21, 2022.

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# Advisory Business

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## Firm Description

Affinity Investment Advisors, LLC (“Affinity” or “Firm”) is a registered investment advisor providing investment supervisory services to institutional and retail clients since November 1, 2010. Affinity, originally founded in 1992, sold a majority of its assets to Morgan Stanley Investment Management (“MSIM”) in May 2007 with the Firm’s business and investment professionals, along with the client track records, moving to MSIM. In May of 2010 MSIM entered into a bulk sale of selected assets to Invesco including those accounts managed by the Affinity team. Shortly after the close of the transaction, Affinity entered into a purchase transaction with Invesco whereby Affinity purchased the client accounts and the associated track records that were managed by the Affinity team. All the business and investment professionals associated with these accounts moved to Affinity effective November 1, 2010.

## Principal Owners

The principal owner is Mr. Gregory Lai.

## Types of Advisory Services

Affinity provides investment advisory services directly to clients and through sub-advisory relationships for both domestic, international and various investments portfolios including multi-asset models on a discretionary and non-discretionary basis. The primary elements of this service are the following:

- (a) Formulation with the client of appropriate investment objectives and restrictions;
- (b) Implementation of the investment strategy by execution of portfolio transactions as needed;
- (c) Multi-asset models typically consist of mutual funds, separately managed accounts, ETF's, government securities, limited partnerships, and/or private placements. Affinity will allocate the client's assets among various investments taking into consideration the overall asset allocation and management style selected by the client. Portfolio weighting between funds and managers will be determined by each client's individual needs and circumstances. Clients will have the opportunity to place reasonable restrictions on the types of investments which will be made on the client's behalf. Clients will retain individual ownership of all securities.
- (d) The continual monitoring of the account for purposes of reviewing its performance and controlling its adherence to strategy and objectives;
- (e) Furnishing reports to the client concerning account activity, strategy, and performance; and
- (f) The continual education of both Affinity and client in modern techniques of portfolio management. This is accomplished by constant monitoring of trade journals, academic research, and attendance of trade seminars.

Affinity also participates in programs with third party advisors and sponsors of Unified Managed Account (“UMA”) programs whereby Affinity submits a model portfolio to these parties. Services and fees for these arrangements will be negotiated.

Affinity also acts as sub-advisor to the Affinity World Leaders Equity ETF (“ETF”, WLDR).

### **Tailored Relationships**

Separately managed accounts are tailored to the client’s needs including the ability to manage client restrictions on investing in certain securities or certain types of securities. Any restrictions imposed by the client must be in writing.

### **Wrap Fee Programs**

The firm participates in a number of wrap fee programs.

A wrap fee program is any program under which a client is charged a specified fee or fees not based directly upon transactions in the client’s account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisors) and execution of client transactions. Sponsors of wrap fee programs are usually broker/dealers who are compensated under these programs for organizing or administering the programs or for selecting or providing advice to clients regarding the selection of professional portfolio managers under the program.

Wrap program may not be suitable for all investment needs and any decision to participate in a wrap program should be based on the client’s own financial circumstances and investment goals. The benefits under a wrap program are a function of the size of the client’s account and the number of transactions likely to be generated in the account i.e., wrap accounts may not be suitable for accounts with little activity or accounts comprised principally of fixed income securities. Participating in a wrap program may cost more or less than the cost of purchasing such services separately from the broker or dealer. Affinity receives compensation as a result of the client’s participation in a wrap program. Affinity may have a financial incentive to recommend wrap programs over other programs and services. Affinity utilizes the same investment process and portfolio management disciplines for all accounts managed by the Firm whether in a separate account, UMA or wrap program format.

### **Client Assets**

Total Firm Assets as of 12/31/2022 was approximately \$1.1B. Of the total assets, \$1.1B was held in discretionary accounts and \$2.5MM in non-discretionary. Additionally, Affinity manages \$77MM in assets under advisement, through model programs.

# Fees and Compensation

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## Description

Compensation is based upon a percentage of assets under management with the fee delineated within the respective Investment Management Agreement. The fee schedule is as follows:

### **Large and Mid-Cap Equity Portfolios**

- 0.65% First \$5,000,000
- 0.60% Next \$5,000,000
- 0.50% Next \$40,000,000
- 0.45% Next \$50,000,000
- 0.40% Excess over \$100,000,000

### **Small Cap Equity Portfolios**

- 0.75% First \$5,000,000
- 0.70% Next \$20,000,000
- 0.60% Next \$25,000,000
- 0.55% Next \$50,000,000
- 0.40% Excess over \$100,000,000

### **Balance Portfolios**

- 0.75% First \$5,000,000
- 0.50% Next \$10,000,000
- 0.40% Excess over \$15,000,000

### **International and Global Equity Portfolios**

- 0.75% First \$5,000,000
- 0.70% Next \$20,000,000
- 0.60% Next \$25,000,000
- 0.55% Next \$50,000,000
- 0.40% Excess over \$100,000,000

### **OCIO Portfolios/Relationships**

- Fees are negotiable depending on asset size and scope of services. These can be a flat fee or an asset-based fee, or a blend of both.

## **Model Portfolios**

Fees for these services will be based on assets under management, with the fee negotiated and delineated within the respective Investment Management Agreement.

## **Sub-Advisory Relationships**

Affinity has relationships with third-party advisors to provide investment management services and may select certain third-party advisors to actively manage a portion of its clients' assets. Client will pay two separate management fees, one to Affinity for the portion Affinity is managing and another fee to the third-party advisor for the portion they are managing. Fees are negotiable with each adviser, and can be a flat fee or an asset-based fee, or a blend of both.

## **Fee Billing**

Affinity's fees are payable quarterly in either advance or arrears, as specified within the Investment Management Agreement. Fees can be billed directly to the client or debited from the client's custodial account as requested by the client. Either party may terminate the Investment Management Agreement at the end of a particular month by giving thirty (30) days advance written notice to the other party. Notwithstanding the foregoing, the Client may terminate the authority of Affinity to manage the account at any time, such termination to be effective as of the effective date of notice to Affinity, but Affinity shall be entitled to the fees payable hereunder for thirty (30) days thereafter. And fees paid beyond the (30) days will be refunded on a pro-rated basis.

## **Other Fees**

Clients may incur fees in addition to the management fees paid to Affinity. This can include brokerage commissions and other custodian, platform, and service fees. Please refer to the section entitled Brokerage Practices for more information on Affinity's selection of brokers.

Affinity may invest client assets in the ETF managed by Affinity, if such investments are consistent with the investment objectives and policies of the client accounts involved. If Affinity makes such an investment on behalf of its clients, those clients will be responsible, indirectly as investors in the ETF, for a portion of the operating expenses and investment advisory fees. No separate management fee is charged by Affinity on the portion of a client's account that is invested in the Affinity World Leaders Equity ETF for which Affinity serves as the sub-advisor. Affinity pays a fee to be on the platform for ETF; this fee is not passed along to the end client.

# **Performance-Based Fees & Side-by-Side Management**

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## **Sharing of Capital Gains or Capital Appreciation**

The Firm does not currently receive performance-based fees.

# Types of Clients

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## Description

The Firm's clients include Individuals, High Net-Worth Individuals, Pension and Profit-Sharing Plans, Trusts, Estates, Charitable organizations, Corporations, State and Municipalities and Investment Companies.

## Account Minimums

The Firm's recommended account minimum for individuals is \$250,000, which may be lowered on a case by case basis. Wrap sponsors advised by the firm may set lower minimums. For institutional clients, the account minimum is \$5,000,000 though may be lowered on a case by case basis.

# Methods of Analysis, Investment Strategies, and Risk of Loss

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## Investment Strategies

The Firm's investment strategy employs a quantitative approach to initial portfolio construction coupled with qualitative analysis to ensure data quality and to leverage the portfolio manager's experience. The proprietary model utilizes a number of fundamental factors, i.e. dividend payouts, earnings and price movements in evaluating securities for inclusion in the portfolio. The strategy has a long only orientation which will include both long- and short-term purchases. We currently offer the following strategies:

- Large Cap Core
- Large Cap Value
- Large Cap Growth
- Small Cap Core
- Small Cap Value
- Mid Cap
- Mega Cap
- SMID
- International
- Global

## Risk of Loss

Although Affinity makes every effort to preserve each client's capital and achieve real growth of wealth, investing in the stock markets involves risk of loss that each client should be prepared to bear. The portfolios consist of small, mid and large capitalization stocks (equities) which by their nature carry a risk of loss.



### ***Risks of stock investing***

Stocks generally fluctuate in value and may decline significantly over short time periods. The value of a stock in which a portfolio invests may decline due to general weakness in the stock market or because of factors that affect a company or a particular industry. Investments in small-sized companies pose greater risks than those typically associated with larger, more established companies such as increased volatility of earnings and prospects, higher failure rates, and limited markets, product lines or financial resources.

## **Disciplinary Information**

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Affinity has not been subject to any legal or disciplinary events.

## **Other Financial Industry Activities and Affiliations**

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Affinity is not involved in other financial industry activities nor have other affiliations. As noted in the Advisory Business section, Affinity acts as sub-advisor to the Affinity World Leaders Equity ETF ("ETF", WLDR).

## **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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### **Code of Ethics**

Affinity has adopted a Code of Ethics that emphasizes the high standard of conduct that Affinity has always sought to observe. The Code of Ethics consists of certain core principles including, but not limited to: 1) the interests of the client will be placed ahead of the firm's or any employee's own interest, 2) officers and employees will not take inappropriate advantage of their position, 3) officers and employees will deal fairly and objectively with all clients when taking investment action for clients, 4) information concerning clients investments will be kept confidential, 5) employees will provide professional investment management advice based upon unbiased independent judgment and 6) officers, directors, and employees will act with the utmost integrity. Officer and employees are required to report periodically, with few minor exceptions as set forth in Rule 204A-1 of the Investment Advisors Act, their personal securities transactions and holdings.

A copy of Affinity's Code of Ethics is available upon request.

## **Invest in Same Securities Recommended to Clients**

Personnel of Affinity may invest in securities recommended to clients which presents a potential conflict. To mitigate this conflict, Affinity has developed policies within the Code of Ethics to address the parameters in which employees of Affinity may trade. The trading activity of Affinity personnel is reviewed regularly to ensure there are no patterns of clients being disfavored and it adheres to the policies set forth for personal trading in the Code of Ethics.

## **Personal Trading Policies**

The Firm's Code of Ethics governs personal trading policies including, trade preclearance, restricted stocks, black-out periods, short-term trading, initial public offerings and transaction and holdings reporting.

# **Brokerage Practices**

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## **Selecting Brokerage Firms**

Generally, Affinity's personnel have the discretionary authority to determine which broker or dealer is used and the commission rate paid to affect the transaction. Where the firm has the authority to select brokers to handle the client transactions, the full range and quality of a broker's services are considered. The selection is based on 1) the ability of such firms to effectively handle the transaction including capability, financial stability, and settlement capacity 2) the quality of execution including account maintenance and back office support and 3) the broker's responsiveness to Affinity. Affinity expects to negotiate rates which are comparable to rates being paid by other institutions in similar transactions.

## **Research and Soft Dollars**

As a matter of policy, Affinity does not utilize soft dollars.

## **Brokerage for Client Referrals**

If a client is referred to Affinity by a registered representative, and the client directs Affinity to effect brokerage transactions through that registered representative and his brokerage firm, the client must be advised in writing that Affinity may have a conflict of interest because its duty is the client to obtain the most favorable brokerage commission rates available under the circumstances and Affinity's desire to obtain future referrals from that registered representative or brokerage firm.

## **Directed Brokerage**

If a client directs Affinity to use a particular registered representative or brokerage firm, such instructions must be in writing. The client may at any time change such instructions by giving written notice to Affinity. It is the responsibility of the associate managing the account to advise the client, in writing, that as a result of such brokerage, the client may pay a higher brokerage commission than might otherwise be paid had Affinity been granted discretion to select a broker to handle the client's account. In addition, if a client directs Affinity to use a particular registered representative or brokerage firm, the client must also be advised that Affinity may be unable to bunch, block or aggregate his/her trades with those of other clients. The inability to bunch trades may result in the client's not receiving the best execution for his/her trades.

## Order Aggregation

The portfolio managers of Affinity may for a number of reasons; bunch, block or aggregate brokerage orders for their clients rather than execute individual transactions for each account. These reasons include: (1) obtaining lower commission rates; (2) avoiding the time and expense of simultaneously entering similar orders for many individual client accounts that are managed similarly; and (3) ensuring that all accounts managed in a particular style obtain the same execution to minimize differences in performance.

Consistent with Affinity's obligation to seek best execution, portfolio managers should aggregate client orders whenever possible. Procedures have been established to ensure that purchase and/or sell orders which have been aggregated/bunched are allocated fairly among clients so that, over time, all clients are treated fairly, consistent with their investment objectives. These procedures also seek to meet the best execution criteria discussed above. Affinity will use a random trade order generator to determine the order in which each block is submitted. All clients will participate in Affinity's random trade order generation process to allow for equitable trade rotation amongst all clients.

# Review of Accounts

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## Periodic Reviews

It is the responsibility of each Portfolio Manager to devote the requisite amount of attention to professionally manage each of his/her accounts in accordance with the investment requirements and objectives of the client. In managing accounts, each portfolio manager is required to maintain regular communications with his/her clients. All accounts are reviewed at least monthly.

## Review Triggers

After an account has been approved for a specific investment strategy, the Chief Compliance Officer ("CCO") shall be responsible for ensuring that the securities purchased or sold are consistent with the client's investment objectives as found in the Investment Management Agreement. The CCO will also look for any evidence of excessive trading or conflicts of interest between the portfolio manager and the client. At least annually, the CCO will review client files to determine that all information and supporting documents are current and complete.

## Regular Reports

Affinity will provide each client with a written quarterly review and analysis of his/her account, which may include a portfolio appraisal, a schedule of realized and unrealized gains and losses, an income and expense report, a performance summary, and a portfolio manager commentary including a review of past and present strategy along with an economic forecast. Affinity also provides annual transaction reports and tax information upon request. Clients also receive trade confirmations and monthly statements from their selected custodian. Please note, Affinity does not provide quarterly reports to certain sub-advisory and wrap clients. In these instances, the investment manager or wrap sponsor has agreed to supply reports directly to clients. It is the responsibility of each portfolio manager to keep his/her clients apprised of relevant changes in

the economy, market conditions and about Affinity's investment views and expectations for the economy and the markets.

## Client Referrals and Other Compensation

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### Third Party Solicitors

Affinity retains the services of marketing solicitors to whom it will pay cash, or a portion of the advisor fees paid by clients referred to it by those solicitors. In such cases, Affinity will comply with Rule 206(4)-1 promulgated under the Investment Advisors Act of 1940. Fees for such referrals are paid by Affinity as a percentage of the fees received from the client. Client fees are not increased to make this referral payment. Any undertaking to compensate a solicitor for referring clients to Affinity will be evidenced by a written agreement containing the following instructions to the solicitor:

- (1) The solicitation activities to be engaged in by the solicitor on behalf of the investment advisor and the compensation to be received;
- (2) An undertaking (agreement) by the solicitor to follow the instructions of the advisor and to comply with the provisions of the Advisors Act;
- (3) The solicitor agrees to give the prospective client a copy of the solicitor's separate Written Disclosure Document -- at the time of the solicitation.
- (4) A statement that the solicitor is not an ineligible person, as defined under Rule 206(4)-1.

## Custody

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### Account Statements

Affinity does not take physical custody of client assets. Moreover, officers or employees of Affinity are prohibited from ever holding customer funds or securities or acting in any capacity as custodian for a client account. However, due to its ability to deduct fees directly from client accounts, Affinity is considered to have custody of client funds and securities under Rule 206(4)-2. Affinity will follow the requirement of this Rule for any client for which it has custody. Each client will receive, at least quarterly, an account statement directly from the custodian. Clients of Affinity are urged to compare the reports provided by Affinity (as discussed within the section entitled Review of Accounts) to the reports provided by the qualified custodian.

# Investment Discretion

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## Discretionary Authority for Trading

Affinity manages client accounts on both a discretionary and non-discretionary basis. In order to meet the requirements of Rule 204-2(a)(3), the Chief Compliance Officer will maintain a list of all accounts managed by Affinity on a discretionary basis. Trades for securities may be entered for execution only if Affinity has received prior written authorization from the client for such transactions. Evidence of Affinity's authority to manage a client's account on a discretionary basis will be documented by the client's signature on the Investment Management Agreement. All written authority granted to Affinity by the client will be restricted to "limited trading authority", giving the portfolio manager the power to only purchase and sell securities for the account. At no time will Affinity or any of its associates enter into any written or verbal agreement or understanding with a client that gives the associate "full trading authority" over the account since that term may be interpreted as granting authority to withdraw funds and securities from a client's account. Portfolio managers are not permitted to enter any order for the purchase or sale of securities for any non-discretionary account without first consulting with and receiving the client's approval for such transactions. Failure to obtain the client's approval before entering a trade may result in the portfolio manager having to personally absorb any loss to the account if the trade is later canceled. Moreover, it is Affinity policy to closely monitor the occurrences of such breaches of policy and portfolio managers who execute such unauthorized trades may be subject to significant disciplinary action, including termination.

# Voting Client Securities

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## Proxy Voting

In the event the client retains discretion or delegates to a third-party other than Affinity with respect to voting proxies, the custodian bank of the account will forward to the client or its designee any proxy materials it receives that pertains to the securities in the Account. Clients may contact Affinity for recommendations or questions on their proxy solicitations.

In the event client delegates proxy voting discretion to Affinity then, unless otherwise given specific instructions in writing by client, Affinity shall vote all proxies according to Glass Lewis & Co.'s Proxy Paper and Investment Manager Guidelines (Guidelines). The Guidelines are designed to maximize returns for investment managers by voting in a manner consistent with such managers' active investment decision-making. The Guidelines are designed to increase investor's potential financial gain through the use of the shareholder vote while also allowing management and the board discretion to direct the operations, including governance and compensation, of the firm. The Guidelines will ensure that all issues brought to shareholders are analyzed in light of the fiduciary responsibilities unique to investment advisors on behalf of clients. The Guidelines will encourage the maximization of return for such clients through identifying and avoiding financial, audit and corporate governance risks.

Affinity shall retain originals or copies of proxy materials it receives and a record of how it voted through Broadridge's, (a third-party provider) ProxyEdge platform. In addition, other than forwarding to client any materials received by Affinity with respect to legal actions (such as notices of bankruptcy and class action suits) pertaining to assets in the Account, Affinity will take no actions with respect to such legal actions, which remains the responsibility of the client. Affinity will be responsible for voting with respect to corporate actions, such as tender offers and rights offering, involving the securities in the Account. The potential for conflicts of interests with respect to proxy votes is mitigated as result of the firm's adoption of the Guidelines of a third-party provider.

Affinity is not required to vote every client proxy and refraining from voting should not necessarily be construed as a violation of Affinity's fiduciary obligations. Affinity shall at no time ignore or neglect its proxy voting responsibilities. However, there may be times when refraining from voting is in the client's best interest, such as when an adviser's analysis of a particular client proxy reveals that the cost of voting the proxy may exceed the expected benefit to the client (i.e., casting a vote on a foreign security may require that the adviser engage a translator or travel to a foreign country to vote in person). Such position also complies with Interpretive Bulletin 94-2 of the DOL.

The portfolio management team shall be responsible for making voting decisions with respect to all client proxies, where a proxy is not voted in accordance with Glass Lewis recommendations. Such decisions shall be in writing and provided to the Chief Compliance Officer who will then ensure that such proxy votes are submitted in a timely manner.

In the event there is a potential conflict of interest in a ballot, we will obtain a third-party to vote in the best interest of our clients.

Upon request, Affinity will provide any client a copy of the Guidelines along with detailed information on how individual proxies were voted.

## Financial Information

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The Firm does not solicit or require prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to provide an audited balance sheet. Additionally, the firm has not been the subject of a bankruptcy petition during the past ten years.