

June 2024

# Direct indexing is poised for a fresh wave of growth

Results and analysis: FTSE Russell advisor survey



**FTSE  
RUSSELL**  
An LSEG Business







# Contents

Introduction	3
1. Anticipating a new phase of growth	4
2. Varying levels of understanding	6
3. Advisors & platform providers	8
4. Conclusion	10
5. Appendix: Our research	11

# Expectations of accelerating growth give platform providers a window of opportunity to differentiate themselves through education, technology and strong product ranges.



Direct indexing is poised for a new wave of growth with advisors showing strong interest in using these tools to personalize client portfolios in the future, according to a FTSE Russell survey of advisors.

Much of the future growth is likely to be fueled by advisors offering direct indexing’s personalization and tax optimization benefits to clients with smaller account sizes, rather than just the most affluent.

This may present a significant opportunity for the platform providers best prepared to translate the value proposition of direct indexing to advisors and drive further adoption.

FTSE Russell offers recognized index solutions and market intelligence to direct indexing platforms and wealth managers. We would welcome the opportunity to discuss our findings in more detail.



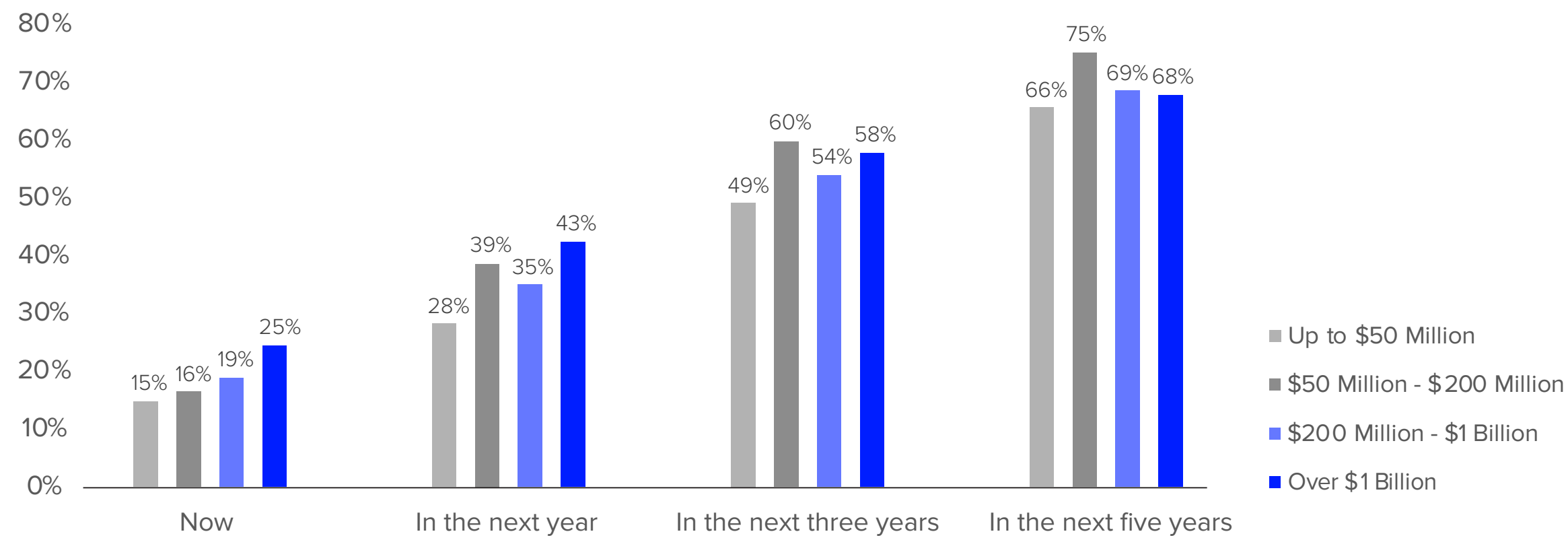
# 1. Anticipating a new phase of growth, fueled by less affluent clients

## Survey results suggest increasing use of direct indexing over the next five years.

Almost half, or 48%, of survey respondents are not using direct indexing, but plan to start in the next five years. The biggest increase is among advisors with up to \$200 million in assets under management (AUM). Although advisors from across the spectrum indicate that they increasingly expect to use direct indexing.

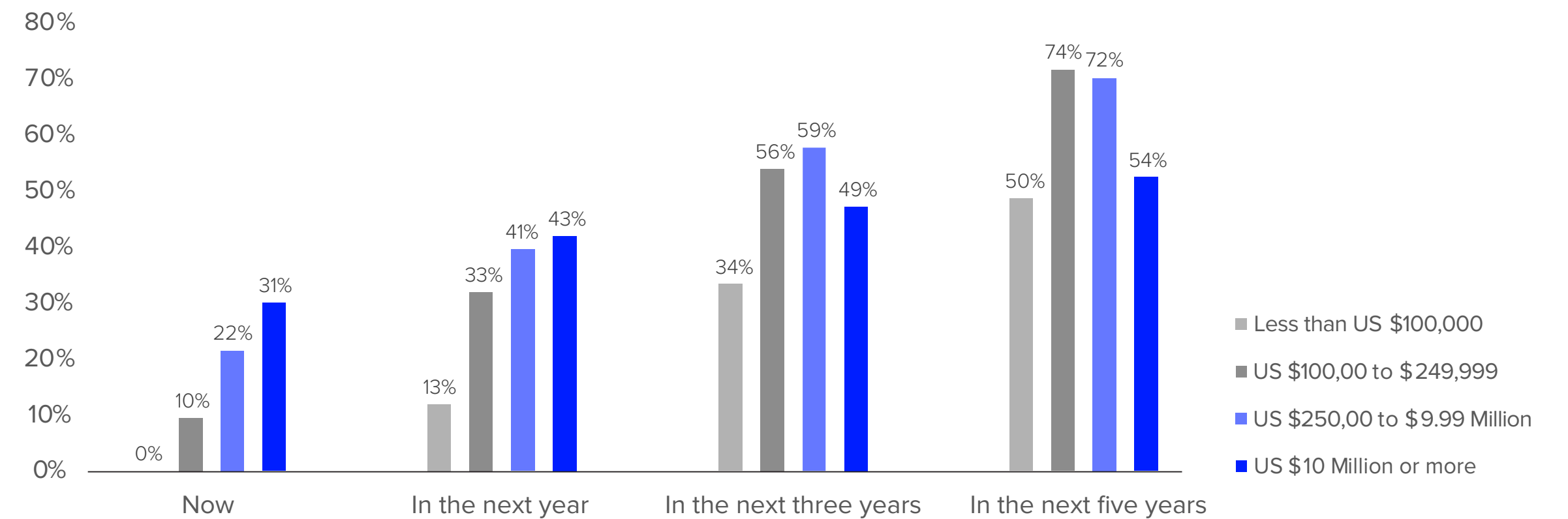
These findings are corroborated when analyzed by levels of client affluence. Advisors with clients in the mass market and mass affluent segments (i.e., assets up to \$249,999) currently have the lowest use of direct indexing. They expect to catch up to usage rates of their peers with wealthier clients over the next five years.

Exhibit I. Cumulative expected use of direct indexing from respondents with some awareness of it



### By client affluence level

Answer to question: "What segment of client affluence do you primarily deal with in your role?"



“The biggest increases may come from advisors with less than \$200 million in AUM.”

## The opportunity

Like ETFs in the 1990s and early 2000s, direct indexing’s evolution remains at an early stage. Its advance may depend on educating both advisors and their clients.

- Most advisors (79%, with some familiarity) are **not yet using** direct index solutions,
- while just 34% (overall) describe themselves as **familiar or very familiar** with it.

Advisors to the mass market, and especially to the mass affluent, cite adoption roadblocks as a lack of awareness – themselves and their clients. This suggests that direct index providers have an opportunity to use education to drive growth.





## 2. Varying levels of understanding among advisors

The wide gap in understanding between firms of advisors presents a need for direct indexing providers to offer tailored education.

Advisors have widely different levels of understanding of direct indexing's value for their clients. According to the survey, those already deploying direct indexing have a far keener appreciation of its benefits around tax efficiencies and customization.

When asked what value they see it adding for clients, they give the following top four responses:

**64%**

said tax-loss harvesting

**56%**

said tax-efficient transactions

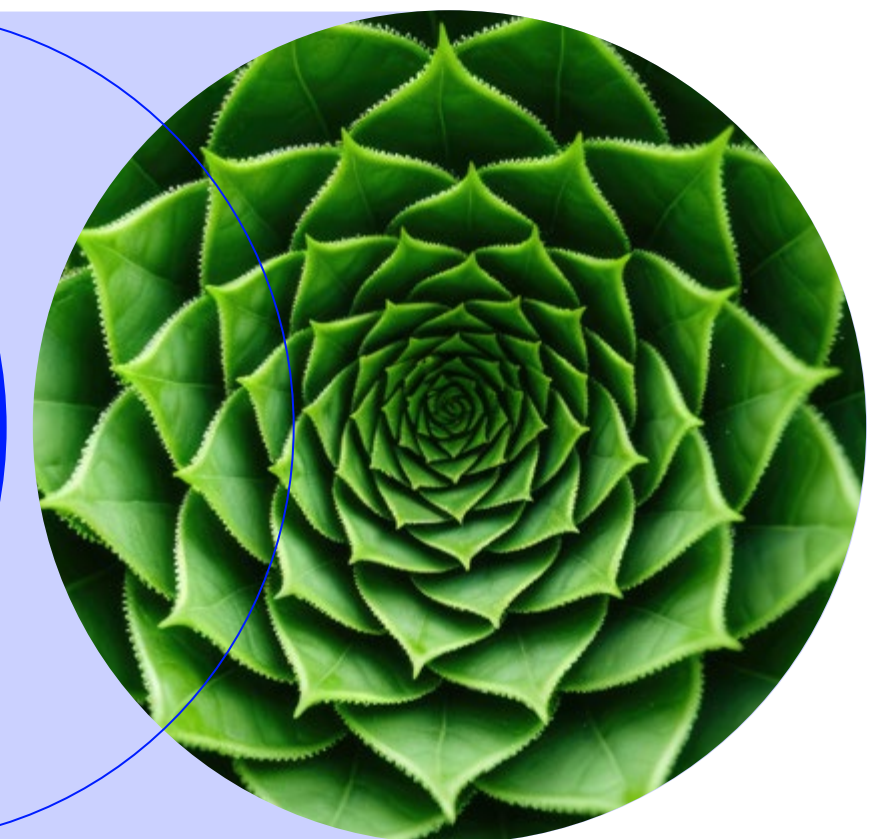
**39%**

said reducing concentration risk

**38%**

said investing in line with clients' values, e.g. sustainability

By contrast, those advisors not using direct indexing revealed less knowledge of its value. For instance, under half (44%) believe that it has value for tax-loss harvesting and even less (41%) for tax-efficient transactions.



“Direct indexing platforms that can lay a groundwork of education today may see the benefits in the coming years.”



## The opportunity

Providers have an opportunity to take the mystery out of direct indexing by educating advisors in terms with which they are familiar. In particular, they can present it within the context of separately managed accounts, one of the main wrappers that providers use to deliver direct indexing portfolios.

Direct indexing is part of a new era of personalization made possible by advances in platform technology.

- It **sits alongside other innovations** like fractional share trading, low trading fees and portfolio management technology.
- **Returning to our ETF analogy**, it took years of consistently educating the market for ETFs to become as widely adopted as they are today.
- **Adoption from mass market segments** may result in modest AUM growth at the outset, but direct indexing can offer immediate personalization while allowing for the deployment of more sophisticated solutions as the clients' wealth accumulates in the future.
- **The benefits in coming years** may be a result of direct indexing platforms that can lay a groundwork of education today.

## 3. What advisors want from platform providers

**Advisors have clear views about cost competitiveness and product offerings that direct indexing providers need to consider.**

As they prepare to make greater use of direct indexing, advisors are seeking platform providers with competitive costs as well as a strong track record and a range of investment options.

Approaching two thirds (63%) of advisors stated that if they were to offer direct indexing to their clients, cost would be a criteria for selecting a partner. That suggests advisors will be cost-sensitive if there is a new wave of growth.

However, advisors also want partners with a strong product offering. More than half of advisors said they would look for experience/track record (52%) and investment options (50%). Forty-two percent also alluded to brand and reputation.

Reflecting the key role of technology in personalization, though, 39% would also consider the platform's technological capabilities.

Advisors stated:

“

63%

said cost is a criteria for selecting partner

52%

would look for experience & track record

42%


alluded to brand & reputation

39%

consider platform technology

”





“Technology is the engine powering customization and tax optimization and will likely be the main area where firms seek to set themselves apart.”

## The opportunity

Ahead of the likely period of growth in assets, platform providers have an opportunity to prepare by differentiating their offerings. Cost will always be a factor, but technology will be a key area of differentiation.

Technology creates...

- **the engine** that takes underlying indexes such as the Russell 1000 and enables exclusions, sector and factor overlays, as well as sustainable investing screens.
- **bespoke portfolios** customized to investors’ individual requirements along with sophisticated tax loss harvesting capabilities and integration with other investment accounts of the client.
- **expectations as a key area of due diligence** for advisors and new users assessing direct indexing providers, especially as platforms continue to differentiate with front-end client tools and back-end scalability.



## Time to gain an early competitive advantage.

For platform providers and advisors alike, the expected wave of growth in direct indexing over the coming five years may offer a significant opportunity. Yet taking advantage of it will require patience as direct indexing platforms and advisors need to improve their ability to deliver value propositions that resonate with their clients.

Platform providers have a chance to prepare educational materials while improving technology solutions to attract a wider group of advisors. What's more, they need to ensure they are competitively priced while expanding the asset classes their platform offers and delivering access to indexes that reflect the full scope of investment opportunities.

For advisors, now is the time to deepen awareness and understanding of direct indexing providers, solutions and benefits. They will then be able to explain the benefits to their clients.

If advisors' expectations for using direct indexing more in the next five years herald a similar hockey-stick growth trajectory to what was seen in ETFs, this is an important time. Those platform providers and advisors gaining early competitive advantage stand to make the most of the opportunity.

### Your index matters

FTSE Russell works across the market with direct indexing platforms and wealth managers, delivering innovative index solutions spanning asset classes that are increasingly in demand from direct indexing users. Our consultative approach fosters partnerships where we provide our learnings and market intelligence gained from supporting a host of direct indexing clients and constructing our transparent and well-recognized global indexes. The index you use matters, and we are here to provide time-tested solutions that advisors and their clients can trust.



**Ryan Sullivan**

Head of Buy Side Americas,  
Index Investment Group

[Ryan.sullivan@lseg.com](mailto:Ryan.sullivan@lseg.com)

**Michael DiSanti**

Index Investments Group

[Michael.disanti@lseg.com](mailto:Michael.disanti@lseg.com)

**Learn more  
about FTSE Russell  
and direct indexing →**

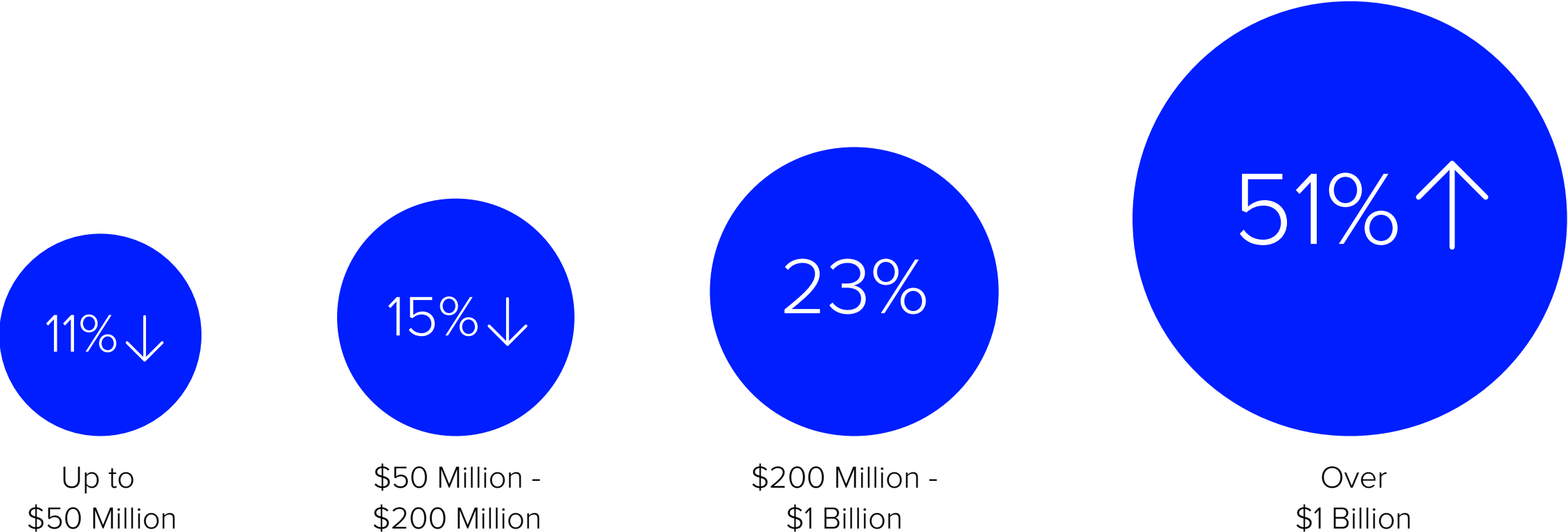


# Appendix: About our research

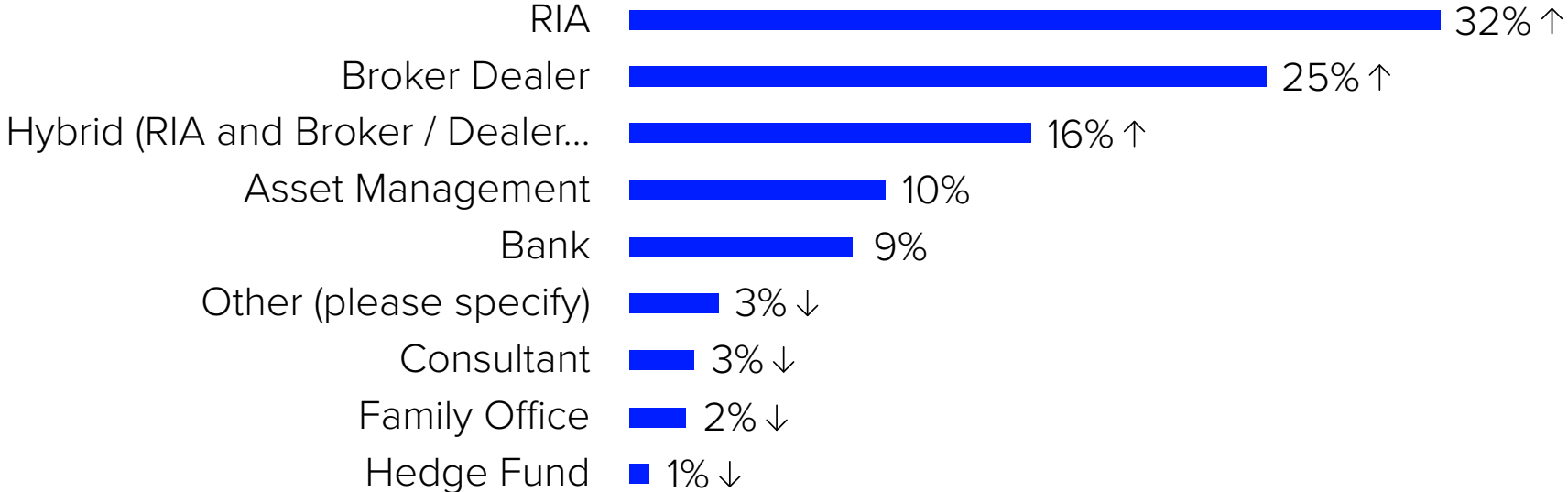
This survey was conducted by the RIA Channel, which collected the views of 631 advisors between April 1 and May 1, 2024.

The advisors came from independent registered investment advisors, broker dealers, hybrids and asset managers, among other firm types. Over half of respondents' firms had an AUM of over \$1 billion (51%) and most served clients with assets of over \$250,000 (83%).

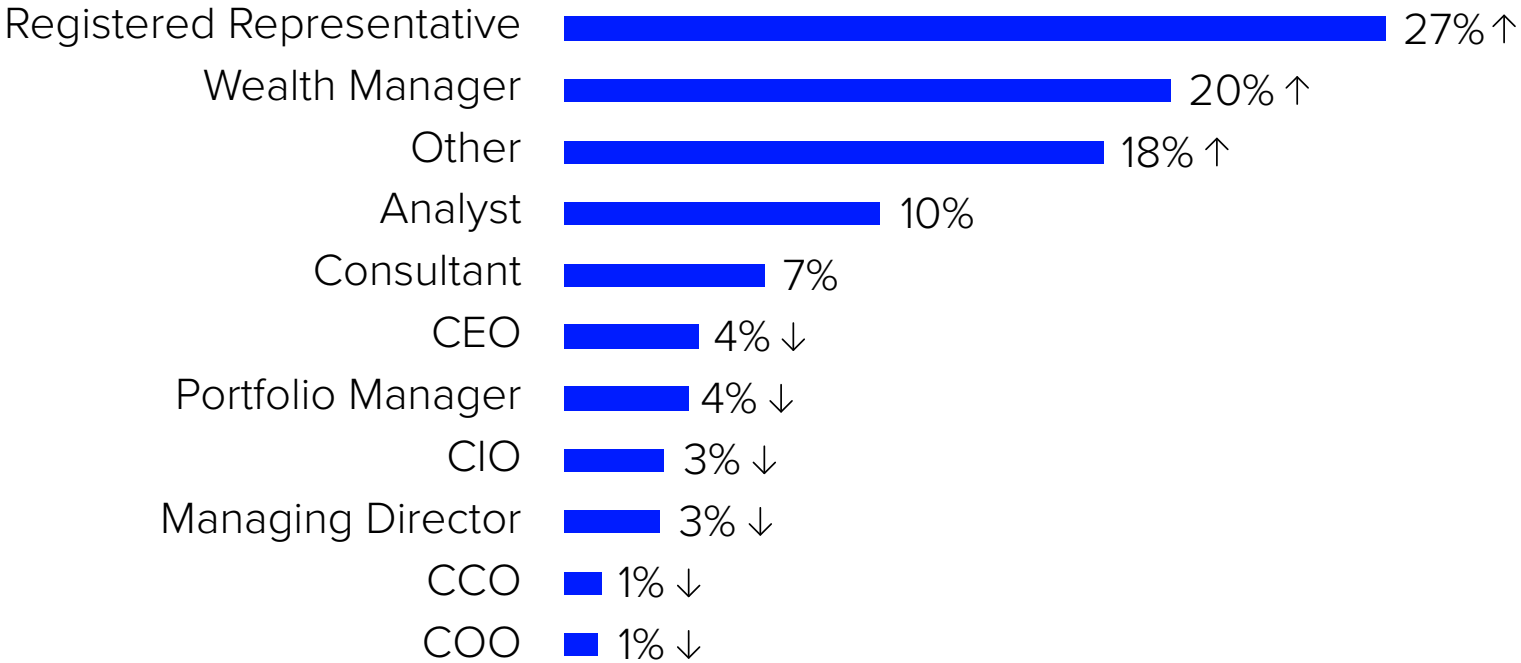
## AUM



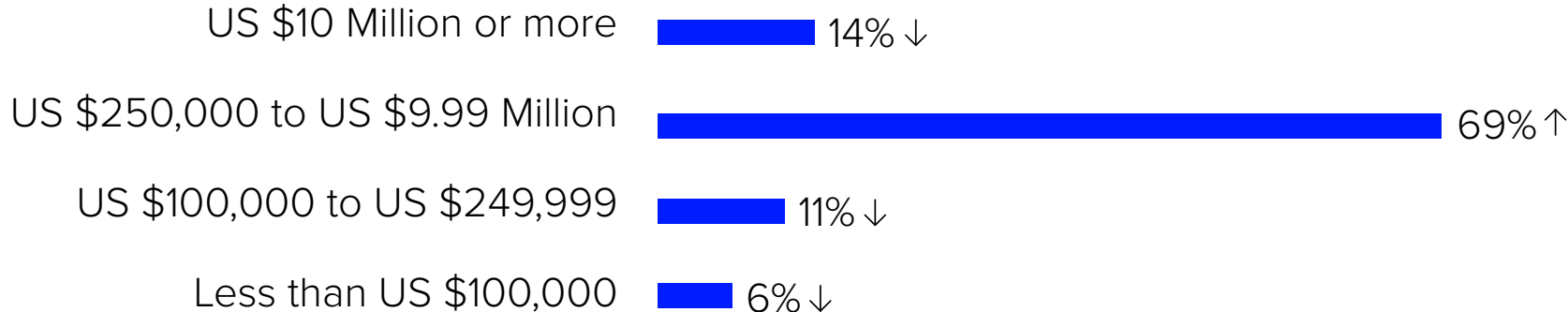
## Organization



## Job title



## Client affluence level





## About FTSE Russell

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

To learn more, email [info@ftserussell.com](mailto:info@ftserussell.com); or call your regional Client Service Team office:

### EMEA

+44 (0) 20 7866 1810

### North America

+1 877 503 6437

### Asia-Pacific

HONG KONG +852 2164 3333

TOKYO +81 (3) 6441 1430

SYDNEY +61 (0) 2 7228 5659

Visit [lseg.com/en/ftse-russell](https://www.lseg.com/en/ftse-russell)



**FTSE  
RUSSELL**

An LSEG Business



## Disclaimer

© 2024 London Stock Exchange Group plc and its applicable group undertakings (“LSEG”). LSEG includes (1) FTSE International Limited (“FTSE”), (2) Frank Russell Company (“Russell”), (3) FTSE Global Debt Capital Markets Inc. and FTSE Global Debt Capital Markets Limited (together, “FTSE Canada”), (4) FTSE Fixed Income Europe Limited (“FTSE FI Europe”), (5) FTSE Fixed Income LLC (“FTSE FI”), (6) FTSE (Beijing) Consulting Limited (“WOFE”) (7) Refinitiv Benchmark Services (UK) Limited (“RBSL”), (8) Refinitiv Limited (“RL”) and (9) Beyond Ratings S.A.S. (“BR”). All rights reserved.

FTSE Russell® is a trading name of FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL, and BR. “FTSE®” “Russell®”, “FTSE Russell®”, “FTSE4Good®”, “ICB®”, “Refinitiv”, “Beyond Ratings®”, “WMRTM”, “FRTM” and all other trademarks and service marks used herein (whether registered or unregistered) are trademarks and/or service marks owned or licensed by the applicable member of LSEG or their respective licensors and are owned, or used under licence, by FTSE, Russell, FTSE Canada, FTSE FI, FTSE FI Europe, WOFE, RBSL, RL or BR. FTSE International Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator. Refinitiv Benchmark Services (UK) Limited is authorised and regulated by the Financial Conduct Authority as a benchmark administrator.

All information is provided for information purposes only. All information and data contained in this publication is obtained by LSEG, from sources believed by it to be accurate and reliable. Because of the possibility of human and mechanical inaccuracy as well as other factors, however, such information and data is provided “as is” without warranty of any kind. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any claim, prediction, warranty or representation whatsoever, expressly or impliedly, either as to the accuracy, timeliness, completeness, merchantability of any information or LSEG Products, or of results to be obtained from the use of LSEG products, including but not limited to indices, rates, data and analytics, or the fitness or suitability of the LSEG products for any particular purpose to which they might be put. The user of the information assumes the entire risk of any use it may make or permit to be made of the information.

No responsibility or liability can be accepted by any member of LSEG nor their respective directors, officers, employees, partners or licensors for (a) any loss or damage in whole or in part caused by, resulting from, or relating to any inaccuracy (negligent or otherwise) or other circumstance involved in procuring, collecting, compiling, interpreting, analysing, editing, transcribing, transmitting, communicating or delivering any such information or data or from use of this document or links to this document or (b) any direct, indirect, special, consequential or incidental damages whatsoever, even if any member of LSEG is advised in advance of the possibility of such damages, resulting from the use of, or inability to use, such information.

No member of LSEG nor their respective directors, officers, employees, partners or licensors provide investment advice and nothing in this document should be taken as constituting financial or investment advice. No member of LSEG nor their respective directors, officers, employees, partners or licensors make any representation regarding the advisability of investing in any asset or whether such investment creates any legal or compliance risks for the investor. A decision to invest in any such asset should not be made in reliance on any information herein. Indices and rates cannot be invested in directly. Inclusion of an asset in an index or rate is not a recommendation to buy, sell or hold that asset nor confirmation that any particular investor may lawfully buy, sell or hold the asset or an index or rate containing the asset. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

Past performance is no guarantee of future results. Charts and graphs are provided for illustrative purposes only. Index and/or rate returns shown may not represent the results of the actual trading of investable assets. Certain returns shown may reflect back-tested performance. All performance presented prior to the index or rate inception date is back-tested performance. Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index or rate was officially launched. However, back-tested data may reflect the application of the index or rate methodology with the benefit of hindsight, and the historic calculations of an index or rate may change from month to month based on revisions to the underlying economic data used in the calculation of the index or rate.

This document may contain forward-looking assessments. These are based upon a number of assumptions concerning future conditions that ultimately may prove to be inaccurate. Such forward-looking assessments are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially. No member of LSEG nor their licensors assume any duty to and do not undertake to update forward-looking assessments.

No part of this information may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission of the applicable member of LSEG. Use and distribution of LSEG data requires a licence from LSEG and/or its licensors.

## Visit [lseg.com/en/ftse-russell](https://lseg.com/en/ftse-russell)