

# SOLUTION OVERVIEW

## Direct Indexing and the Russell 1000

Helping RIAs gain a competitive advantage



### Overview

#### Rather than holding your US stocks through a mutual fund, why not consider direct indexing?

Registered investment advisors (RIAs) with a direct indexing service can build customised, low-cost and efficient portfolios for their clients—while also generating alpha.

For example, RIAs could consider applying a direct indexing approach to the Russell 1000, FTSE Russell's flagship index for US large caps and one of our most widely used products.

### Russell 1000 Index Information

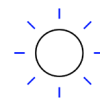
Universe	US equities
Selection methodology	Largest 1000 stocks in Russell 3000 index
Weighting	Market capitalisation
Currency	USD
Return Types	Price and Total return
Launch Date	1 January 1984
Reconstitution	Annual in June (semi-annual from 2026)
Calculation	EOD

### Other Russell Indexes suitable for direct indexing

- Russell 3000 Index
- Russell 2000 Index
- Russell 1000 Growth Index
- Russell 1000 Value Index

### Key Benefits

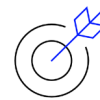
Applying a direct indexing approach to the Russell 1000 could offer several benefits:



Exposure to the flagship Russell 1000 Index of US large-cap stocks



A way of generating tax "alpha" for clients



Increased diversification and reduced index concentration risk



A competitive advantage for RIAs offering the direct indexing service



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Many RIA clients hold US equities through a commingled fund, like a mutual fund or an ETF. Recent technological advancements have reduced dealing costs and allowed for fractional share ownership. Taken together, these changes mean it’s often feasible to manage a separate account and own the index constituents directly (i.e., “direct indexing”), rather than buying a fund.

In turn, direct indexing enables the RIA to help his/her client to generate real alpha: the “harvesting” of investment losses can reduce the client’s overall tax liability—something that would be impossible in a fund. There are many such tax loss harvesting opportunities, even in a rising equity market.

For example, between June 26 2023 (the first market close after the June 2023 Russell index reconstitution) and June 28 2024 (the last market close before the June 2024 Russell index reconstitution), the Russell 1000 index rose by 25.6%.

But at an individual share level, there were over half as many losers as gainers in the Russell 1000:

- **624 stocks had gains**, with an **average gain of 31.7%**
- **364 stocks had losses**, with an **average loss of 20.4%**

For the direct indexer, these losses are valuable. They can be realised, then used to offset future gains on federal tax returns, to reduce ordinary taxable income, and even to offset gains from selling a home or a business.

### Russell US Indexes – 2024



Source: FTSE Russell. Data as of April 30, 2024. Russell Index constituents represent the preliminary reconstitution constituents as of rank day, April 30, 2024, which will be effective after market close on June 28, 2024. May not equal 100% due to rounding. The market capitalization breakpoints for the Russell Indexes are based on new additions as of 2024 reconstitution. The market capitalization ranges used above are absolute breakpoints for new members and do not include capitalization banding. Capitalization banding involves the implementation of a ±2.5% band around certain breakpoints. For further information, please refer to the Russell US Indexes construction and methodology document or contact FTSE Russell Client Service.

Other applications of direct indexing include:

- For the RIA client with concentrated stock positions (for example, as the result of share options or selling a business), direct indexing can be used to increase diversification.
- For the RIA client worried about excessive stock market concentration, direct indexing can also be used to shift portfolio weightings and achieve greater diversification.
- For the RIA client wishing to adopt an ethical investment stance, direct indexing allows tilts towards values investing.
- Risk management and the over-/under-weighting of preferred and non-preferred stocks and sectors.

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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.

## Contact Us

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