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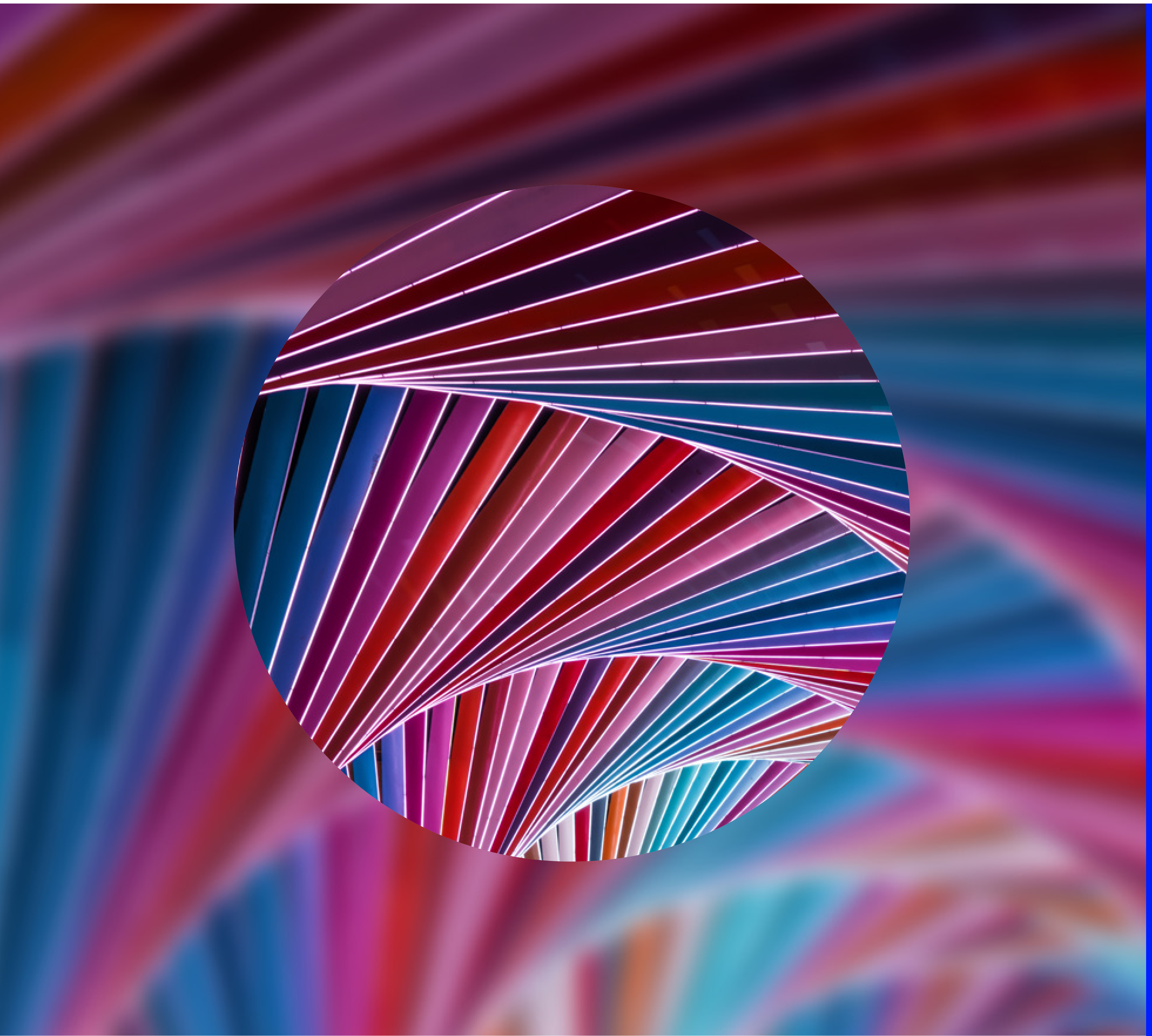
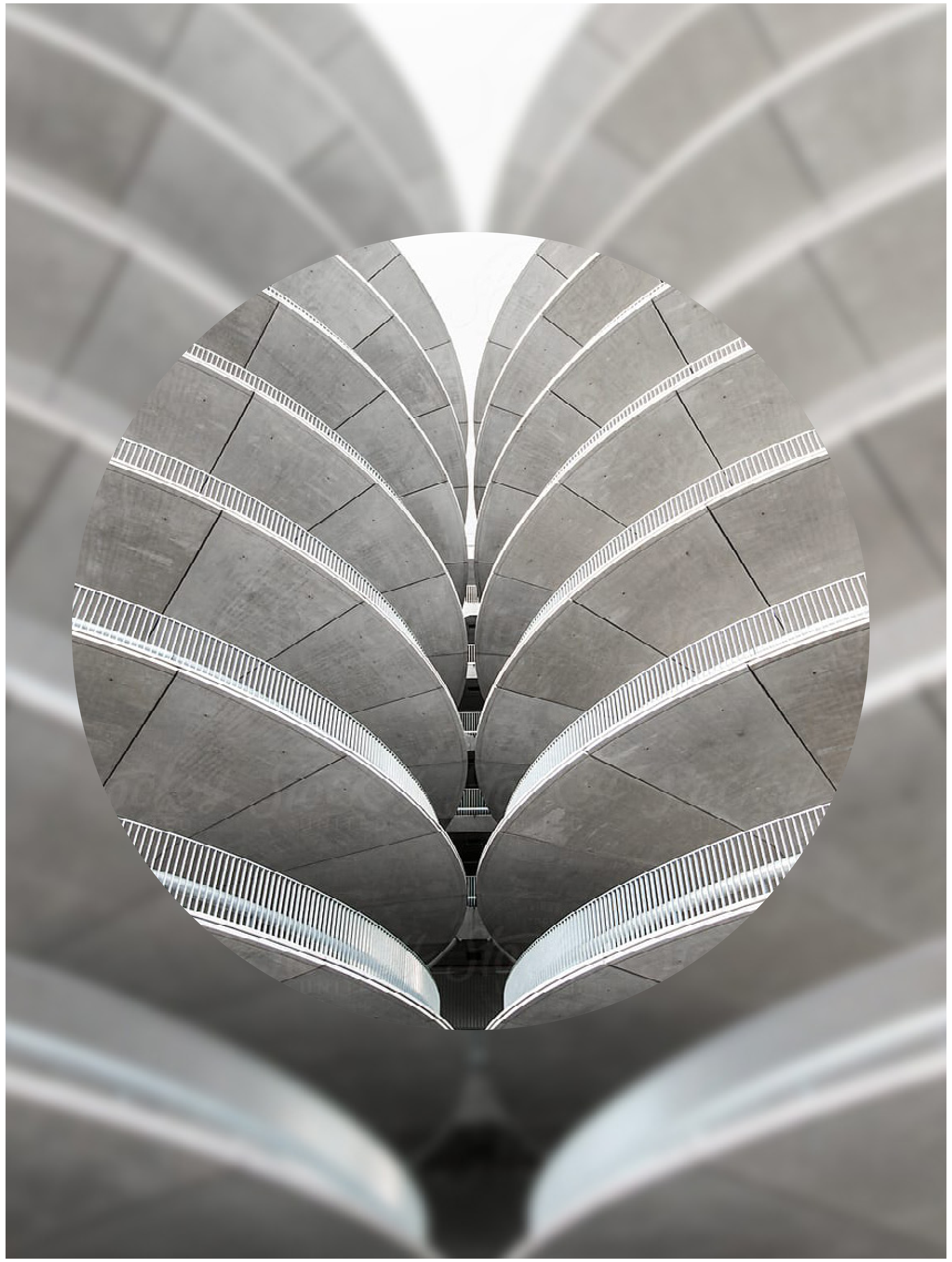


May 2025

Direct Indexing: A critical tool for Wealth Managers



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Why do you plan to increase your use of direct indexing?

FTSE Russell surveyed over 400 advisors to better understand how direct indexing is evolving as a tool for wealth management.

"The tax benefits to clients are tangible and it's a differentiator."

"Clients starting to enjoy returns/risk."

"Because it offers creating personalized, tax-efficient portfolios that align with my client's values and goals."

"Better outcomes."

"Great solution for a tax-efficient investment plan."

"Direct indexing is far more cost effective and tax-efficient than investing in mutual funds."

"Provides proper diversification and tax efficiency. Also have clients with concentrated positions that I would like to diversify out of."

"Ease of use, consistency, and tax benefits."

"It works and it is now widely available at a reasonable price."

"It fits an important niche in my business."

"It makes sense for larger taxable portfolios."

"For clients who come to me with a highly appreciated portfolio—if following an index... Excellent tax management!"

"It's a very logical way to handle large capital gains for new and existing clients."

"Excellent tool for increasing tax efficiency."

"Tax loss harvesting and charitable giving opportunities."

"Strategy makes total sense to use for variety of reasons ranging from cost, tax efficiency, and multiple strategy allocation."

"It makes sense for larger taxable portfolios."

"Clients want it."

"To help clients manage tax consequences of concentrated positions."

Advisors signal strong direct indexing opportunity, especially among wealthy clients

Most advisors say that they intend to increase use of direct indexing, although client education and implementation remain a challenge

Key takeaways

Most advisors plan to step up direct indexing (DI) in the next 12 months. Those under 45 see it as key for remaining competitive. According to our survey, they see the greatest opportunity coming from wealthy clients.[1]

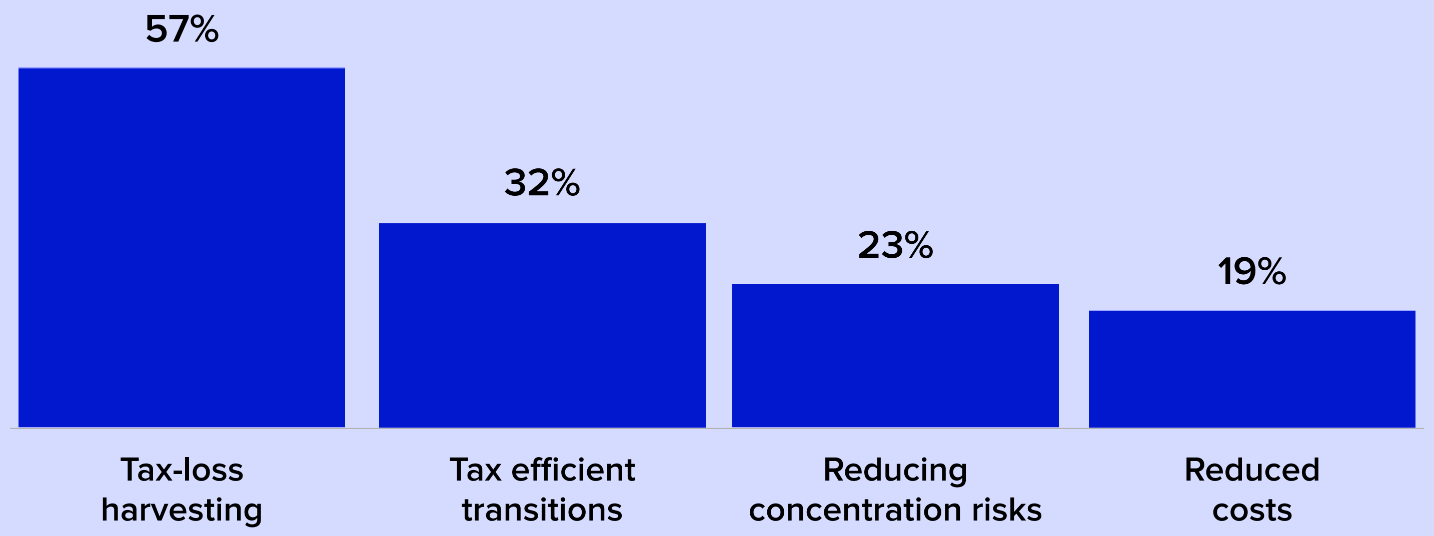
Tax management is DI's greatest benefit, followed by its potential as a tool for reducing portfolio concentration. Artificial intelligence (AI) is serving as a catalyst speeding adoption, as it can automate implementation of tax efficiencies.

Education remains a challenge, especially explaining DI to clients. Additionally, some advisors perceive implementation as a difficulty.

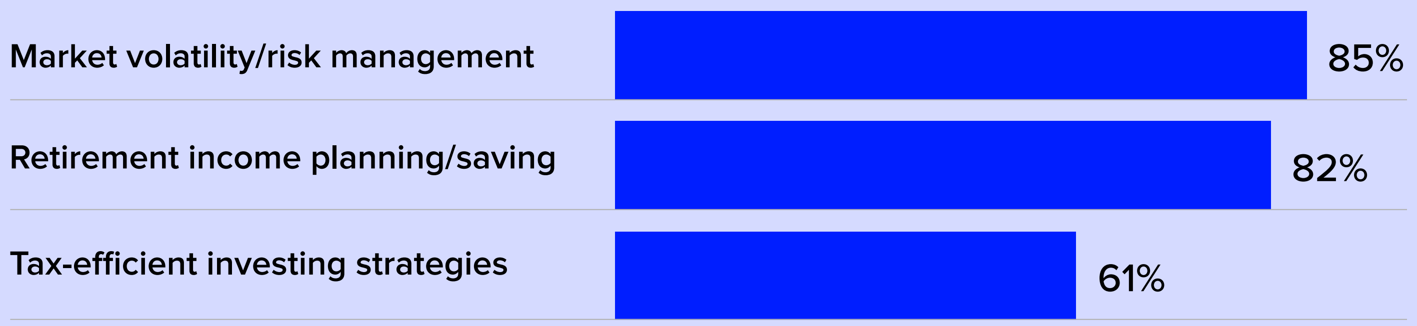
FTSE Russell offers recognized index solutions for DI, including the Russell 3000 index that provides full representation of US equities. We'd welcome an opportunity to discuss our findings in more detail.

[1]Conducted by 8 Acre Perspective, the survey solicited input from 402 advisors between March 7 and March 24, 2025. For more information, see about our research at the back of this report.

Top ranked benefits of direct indexing[2]



Top 3 topics clients most often ask about[3]

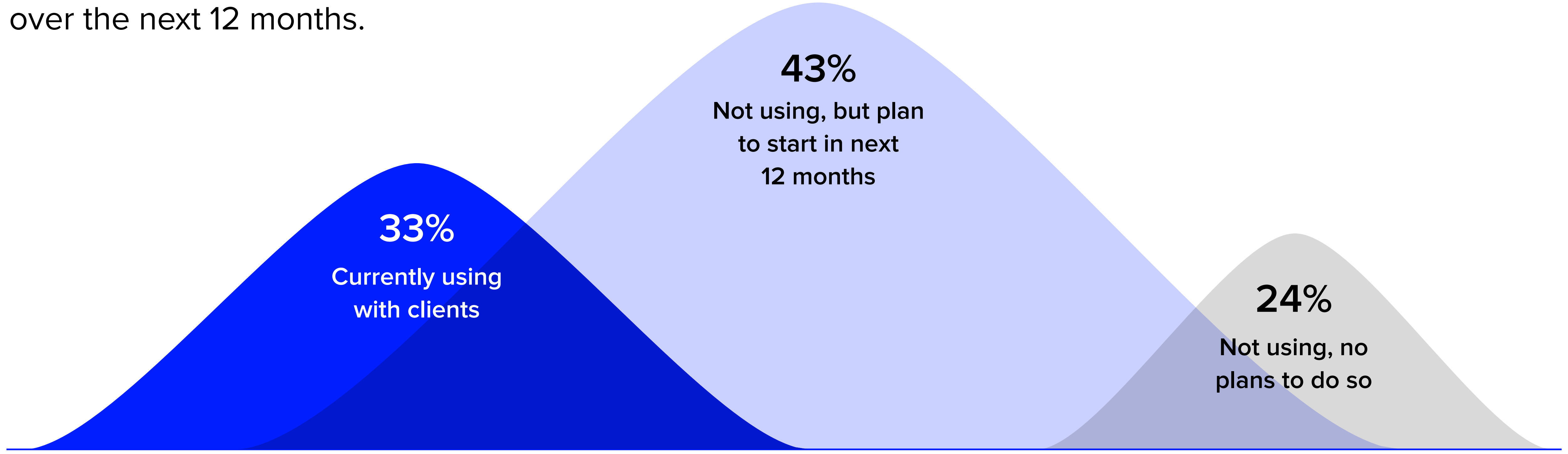


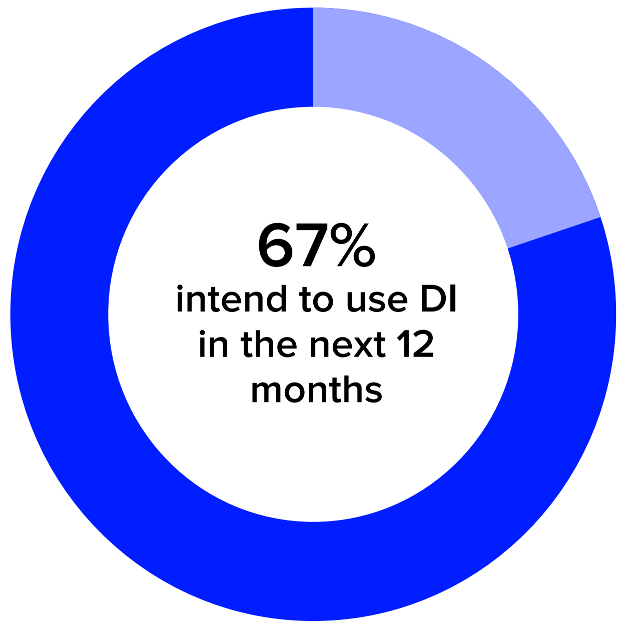
[2]Ranked up to two | Base: Associate 1+ benefit with DI.
[3]% top 5 | Base: All advisors

Most advisors plan greater use of DI; see growth ahead

Next 12 months: Advisors plan to increase use of DI to serve high net worth (HNW) and ultra-high net worth (UNHW) clients

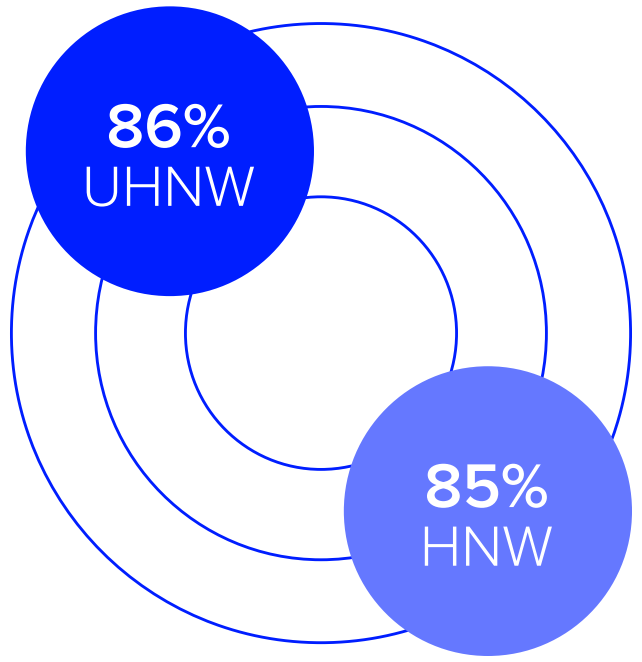
In a sign that advisors have accepted DI as a product offering with distinct client benefits, our survey again suggests near-term growth over the next 12 months.





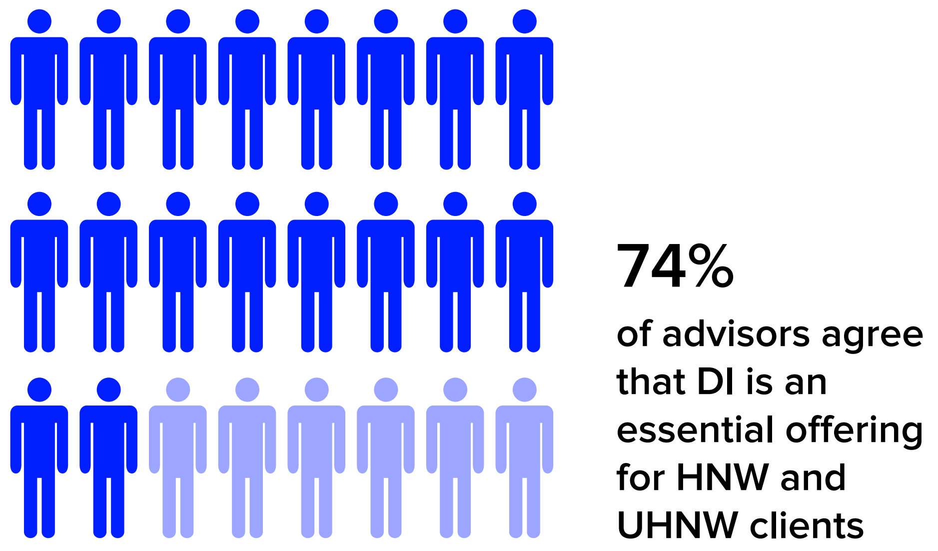
Current users are doubling down

Of the third (33%) of advisors already using DI, most (67%) intend to do so even more in the next 12 months. Additionally, more than four in 10 (43%) advisors say they plan to start using DI in the year ahead. Just a quarter (24%) of advisors have no plans to incorporate DI.



Wealthy clients are expected to drive growth

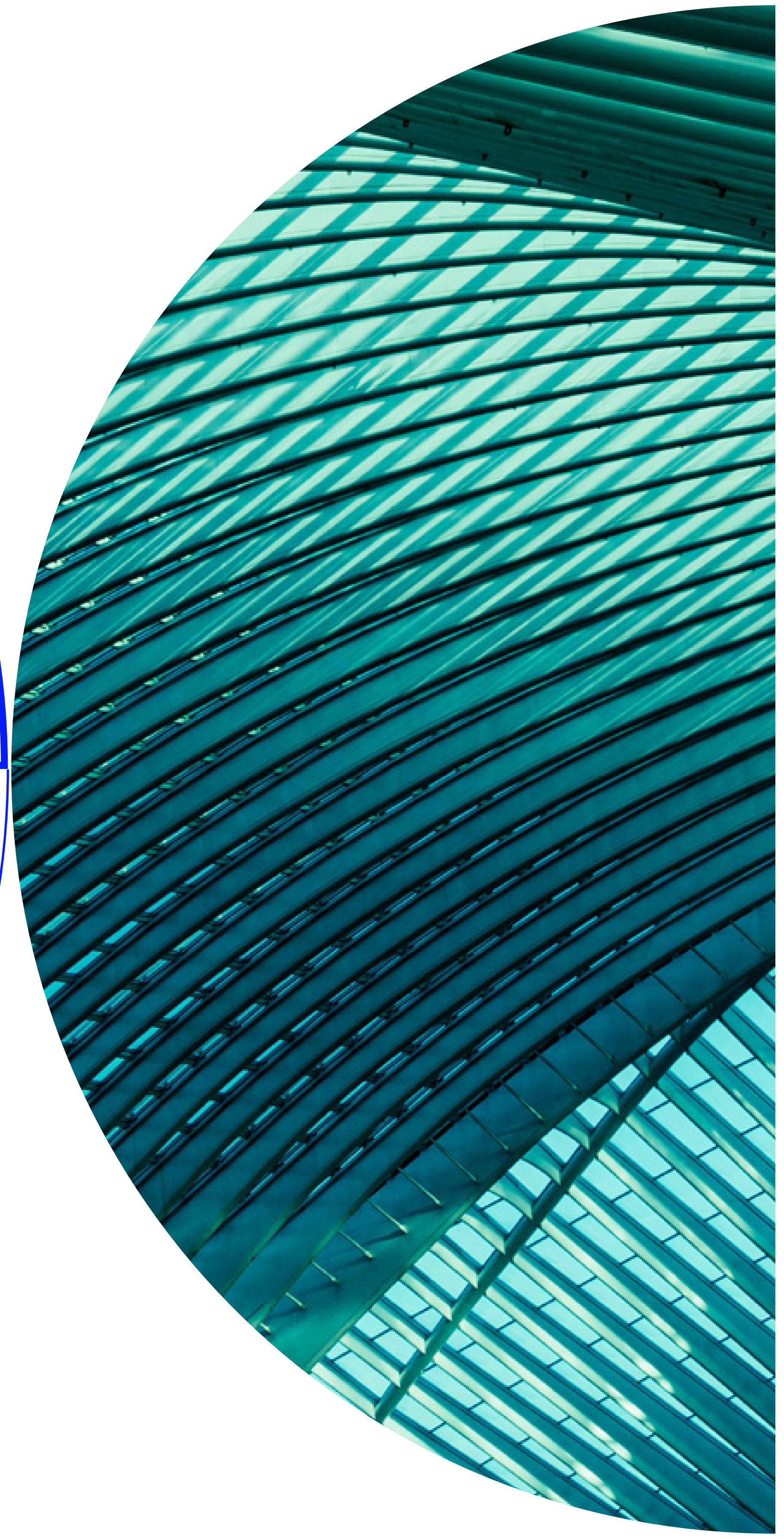
While last year's survey suggested more growth in the mass market, our 2025 survey indicates that it may remain concentrated to the wealth management community. Almost all advisors see a strong or moderate opportunity among both the ultra-high net worth (UHNW) (86%) with assets of $10m or more, and the high net worth (HNW) (85%) with assets between $1m and $9.9m.



DI is becoming essential for serving affluent clients

What's more, almost three quarters (74%) of advisors agree that DI is an essential offering for HNW and UHNW clients.

Notably, wirehouse advisors are most confident about the UHNW opportunity. Almost two thirds (63%) see DI as offering a strong opportunity – whereas independent broker dealers (48%) and registered investment advisors (45%) had lower levels of optimism



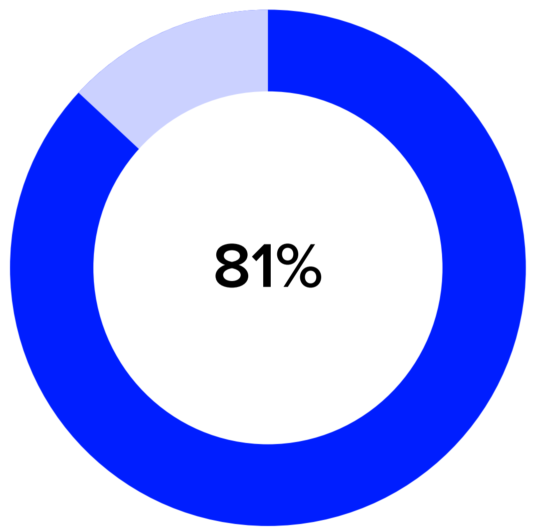
Managing tax and cutting portfolio concentration are main benefits

Tax-loss harvesting and tax efficiency offer the greatest benefits, with AI acting as a catalyst

When it comes to how advisors are using DI, advisors believe the biggest benefits are to be gained in tax management, followed by the reduction of portfolio concentration risk.

Almost three quarters (72%) of advisors view tax-loss harvesting as a benefit, with over six in 10 (62%) seeing its ability to make portfolio transitions tax efficient a benefit.

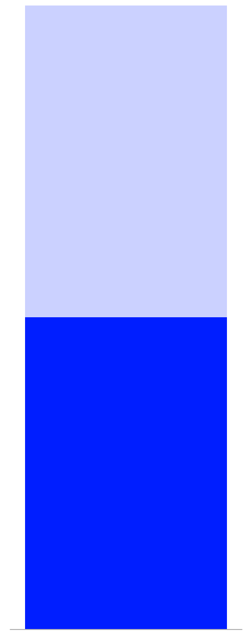
Advisors see top DI benefits as tax management, diversification, and direct stock ownership



Advisors agree that advancements in AI and automation will help drive use of DI

AI is accelerating adoption of DI

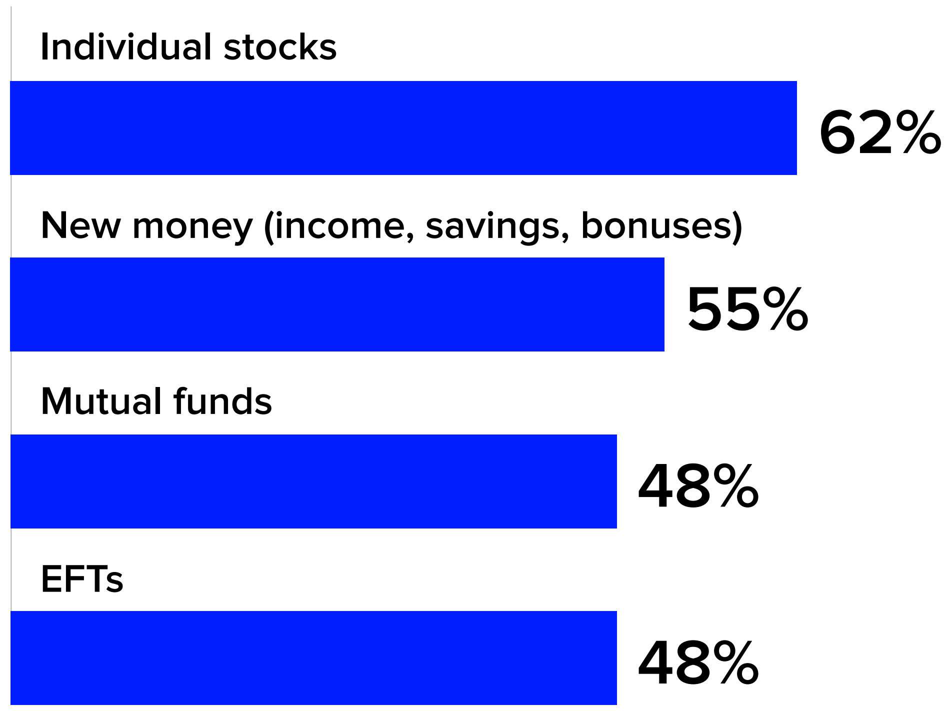
What's more, advisors see AI as a catalyst for growth. Eighty-one percent agree that advancements in AI and automation will help drive use of DI. By way of explanation, some advisors are beginning to leverage AI to automate tax efficiency – whether across different managed account platforms or for multi-asset portfolios



47%
See DI as reducing concentration risk

Helps reduce portfolio concentration risk

But a significant number also value DI's role in decreasing portfolio concentration risk, at a time when investors have likely appreciated the need for greater diversification in equity markets. Almost half (47%) of advisors view this as a benefit.



Stocks and new money are key

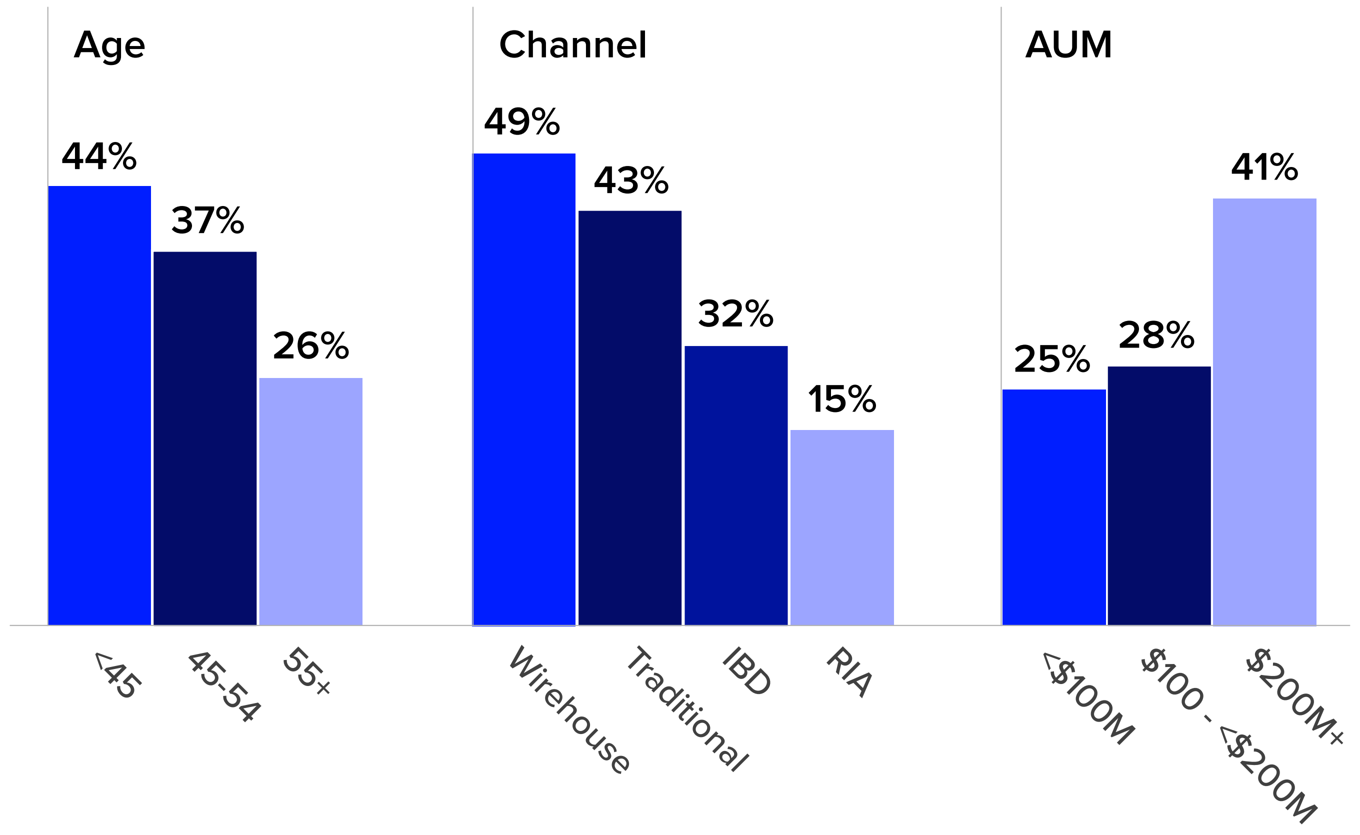
Advisors who are currently using DI and plan to increase usage over 12 months think the assets most likely to fund new DI accounts are individual stocks (62%), followed by new money (client income/bonus, bank savings, etc.) (55%). But they also see funding coming from mutual funds (48%) and ETFs (48%).

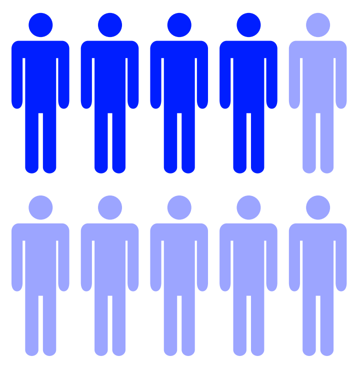
Younger advisors view DI as key differentiator

Those under 45 see DI as vital for them to remain competitive, at a time when personalization is key

Younger advisors aged under 45 believe DI is a vital tool for them to remain competitive. Almost two thirds (63%) agree that it's essential in wealth management. But the older generation's less convinced: less than half (47%) of colleagues aged 55 and over think that DI is needed to remain competitive.

Adoption of DI is on the rise





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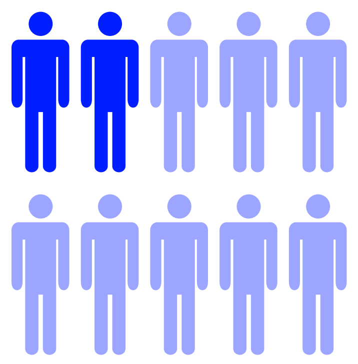
Advisors **under 45** already use DI



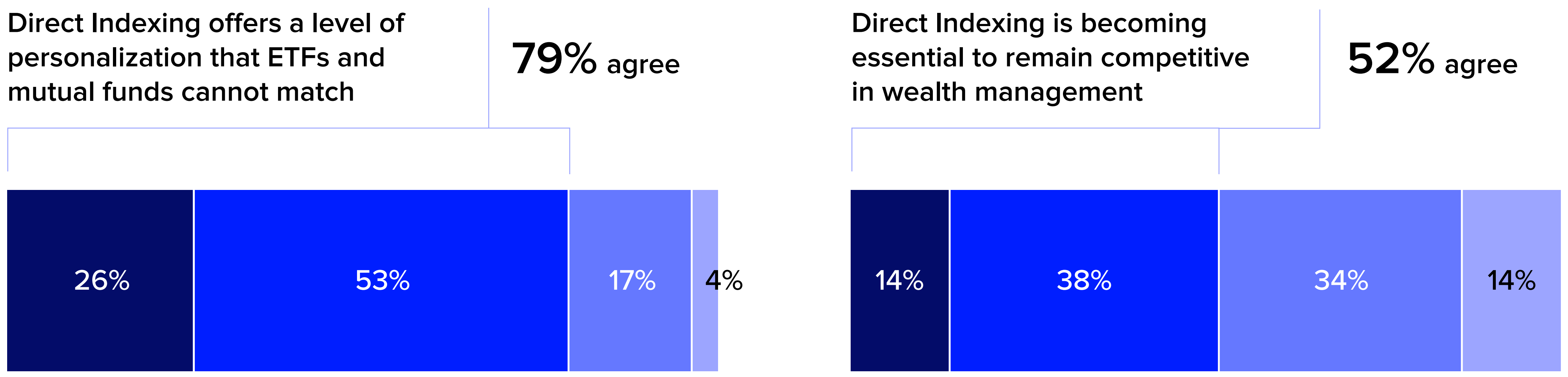
26%

Advisors **55 and over** use DI

More likely to use it

More tech-savvy than their older colleagues, younger advisors are far likelier to use DI and are less daunted by its perceived complexity. Just over four in 10 (44%) advisors under 45 already use it, compared to only 26% of those aged 55 or over. What's more, over two thirds (69%) of under 45s say implementation is easy – by contrast only about half (49%) of those aged 55 plus think so.

Advisors agree on the power of personalization with DI but question if it's essential



Increasing trend

Looking to the future, the under 45s associate DI with wealth management's ongoing evolution. Six in 10 (60%) agree that DI will accelerate the decline of actively managed mutual funds, while only just over four in 10 (41%) of those aged 55 and over agree. The jury is out, though, over the threat to mutual funds, with more than half (53%) of advisors overall not thinking it will hasten the mutual fund's ebbing.

Personalization may help

At a time when many advisors are using personalization to stand out from the pack, younger advisors' familiarity with DI may differentiate them. More than three quarters (79%) of advisors overall agree that DI offers a level of personalization that ETFs and mutual funds cannot match.

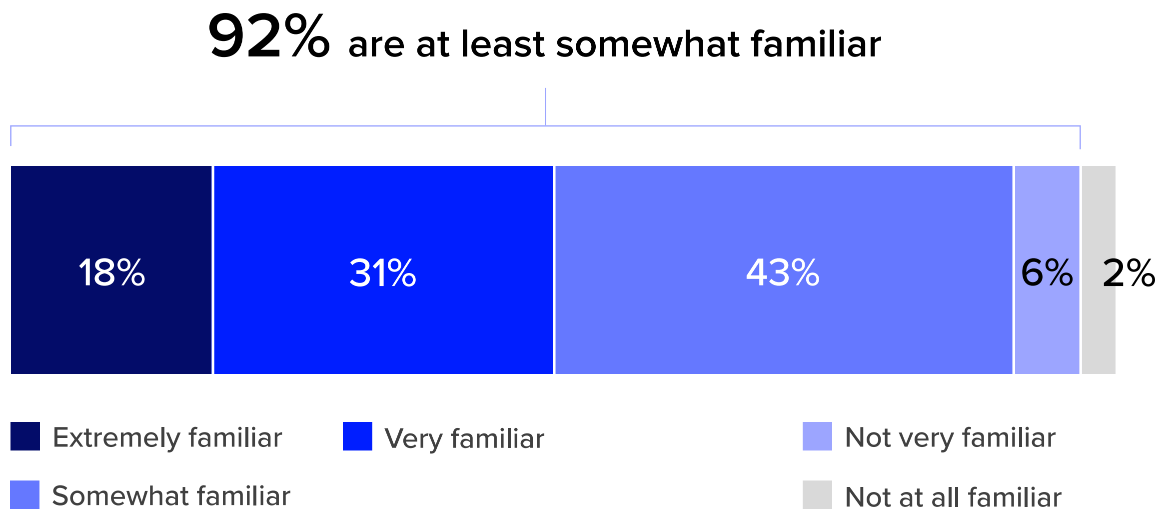
DI education and implementation remain a challenge

It's difficult to educate clients about DI's benefits, and its application

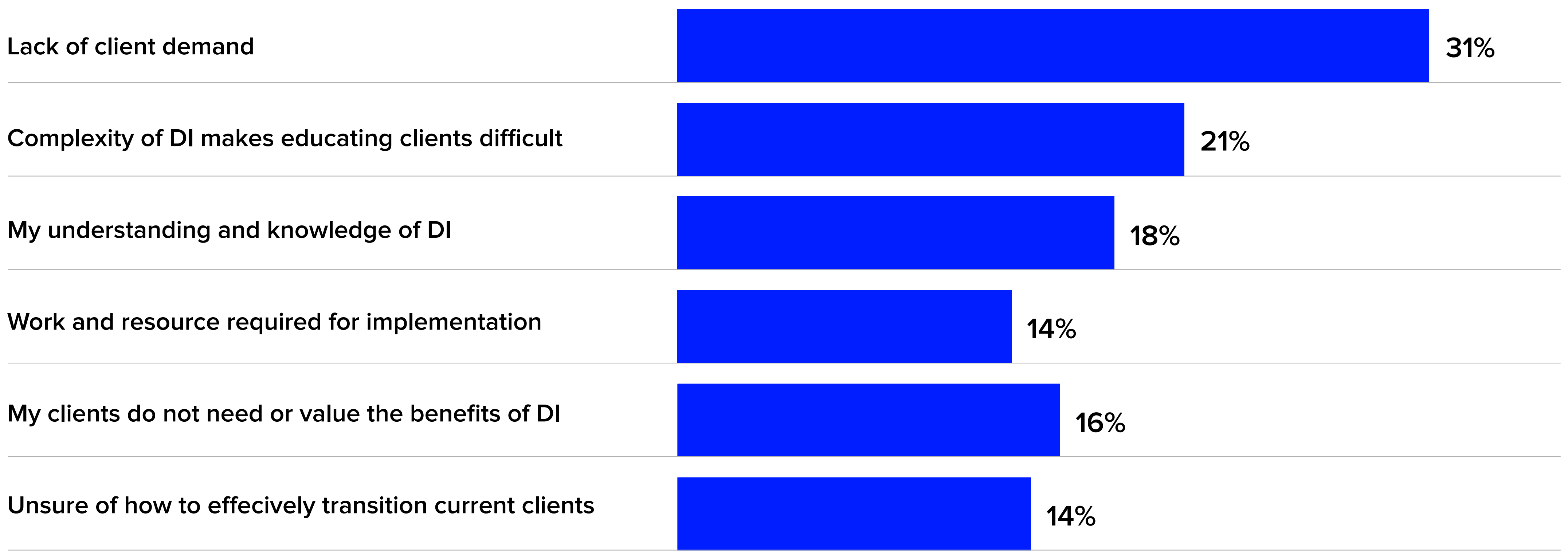
Perceived as complex

While advisors are increasingly convinced that DI is an essential product, they're perplexed by challenges associated with its perceived complexity. Most notably, they report difficulty explaining its benefits to clients, which is a problem direct index providers can help with. Additionally, the perceived difficulty of implementing DI serves as another barrier.

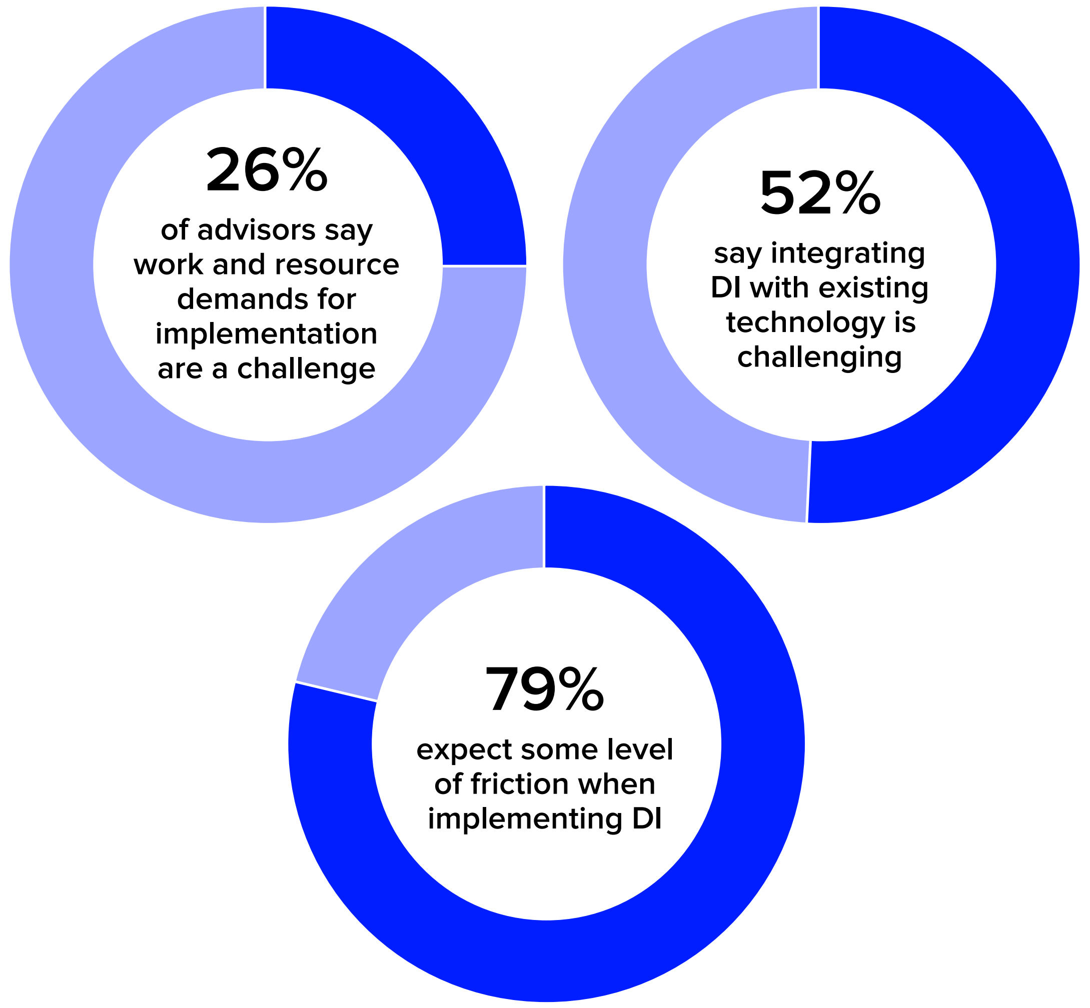
Education is needed: Only a fifth of advisors are extremely familiar with DI, and most are not confident discussing it with clients



Perceived lack of client demand, complexity, and implementation are top challenges to DI[4]



[4]Ranked up to two | Base: Associate 1+ challenge with DI



Advisors have a strong desire to grow their knowledge[5]

[5]Base: interested in building knowledge of DI

Education is key

For sure, advisors say the greatest challenge is a lack of client demand – with approaching half (45%) saying this. But overall education and knowledge appear a greater issue. Notably, a third (34%) of advisors say that the complexity of DI makes educating clients difficult, ranking it the second biggest challenge. They also rank their own lack of knowledge as the third biggest challenge (according to 27%). Unsurprisingly then, eight in 10 (79%) advisors aren't entirely confident about discussing DI with clients.

Fortunately, though, advisors sense DI's opportunity and have a thirst for knowledge. Almost nine in 10 (86%) advisors are interested in learning more.

Their preferred source of knowledge is assets managers, followed by broker dealers and then custodians. And the three most favored ways to learn are one-on-one training from an asset manager or provider; followed by on-demand video courses; and then live webinars with experts.

Operations and implementation take time

Turning to operational issues, a quarter of advisors (26%) feel the work and resources required for implementation are hurdles to implementing DI with their clients. What's more, over half (52%) agree that integrating DI with their existing technology stack is challenging and just under eight in 10 (79%) expect some level of friction when implementing DI. Yet this appears related to product knowledge, as 89% of respondents that currently use DI regard implementation as easy, compared to 42% of those who plan to use DI, and just 32% with no plans to use it.

Providers can help

There's a high level of satisfaction among advisors with their DI platform providers. Almost all (98%) advisors are satisfied, suggesting that they're open to further support with education and implementation.

Toward mainstream adoption

The main findings from this year's DI survey are important for advisors and asset managers alike. They signal that DI is becoming widely accepted among advisors, who see an opportunity among wealthy clients to use them as a tool for tax management and to reduce portfolio concentration.

In 2024, our survey compared the growth of DI to that of ETFs 20 years ago. As ETFs has proliferated, the wrapper has evolved from offering pure beta to options, single stocks and more actively managed strategies as managers try to differentiate in a crowded market. Similarly, we expect the DI providers to leverage the technology, including AI, to improve access and personalization to set themselves apart in the market.

There's an important role for asset managers offering DI solutions to provide the learning tools that advisors need for clients. They might also help advisors to integrate DI into their existing tech stacks.

In this way, DI platforms can help advisors to future-proof their offerings. After all, it's clear from our survey that DI is fast becoming an essential tool for them to remain competitive.

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 indices.

The index you use matters. We provide time-tested solutions that advisors and their clients can trust.

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Learn more about FTSE Russell and direct indexing

About our research

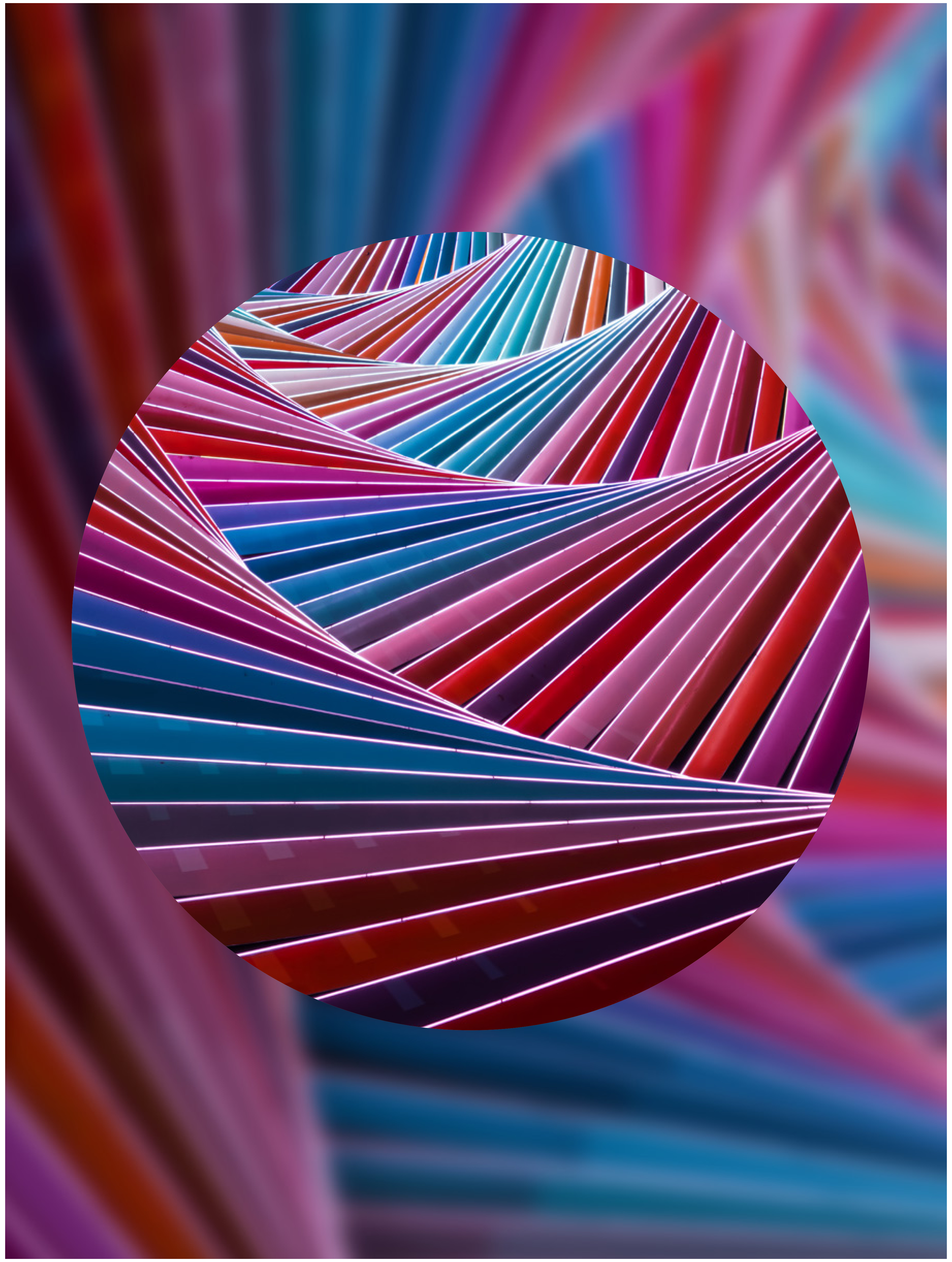
The survey was conducted by independent research firm 8 Acre Perspective.

It includes:

Views from 402 financial advisors between 07–24 March 2025.

Advisors came from a mix of channels, including wirehouses, traditional, independent broker-dealers and registered investment advisors.

Forty-four percent of respondents' firms had $200+ million assets under management (AUM). The average across the total sample was $419 million.



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For over 40 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.

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