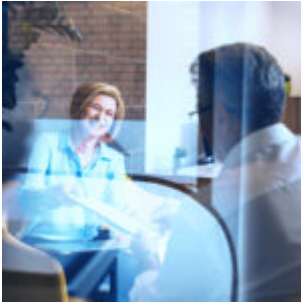


What is Direct Indexing? How Delivering Personalization Helps Grow and Scale Your Business



Direct indexing is popping up everywhere — or at least it would seem. So what is direct indexing? A quick google search on the term yields some 86 million results. According to Cerulli, direct indexing assets are predicted to grow at an annualized rate of more than 12% over the next five years — outpacing both ETFs and mutual funds. Other projections estimate that direct indexing assets will grow to over \$1 trillion by the year 2025.

Direct indexing is an investment approach that offers the ability to replicate the performance of an index by purchasing the underlying shares of an index to create a customized portfolio. This approach has been around for a while but has gained significant traction in the past few years as technology has made it more accessible and scalable. Financial advisors are leaning into direct investing as a way to provide clients with both personalization and tax management through customized portfolios.

What is Direct Indexing?

Personalized Strategies for Unique Goals

At the fundamental level, most advisors and clients think of direct indexing as a way to passively track an index — such as the S&P 500 or the Russell 2000 — through the purchase of the underlying positions. Although that is one objective of the approach — it's just the beginning.

Direct indexing offers the ability to select or personalize the subset of underlying

positions, which opens a near limitless opportunity for customization to meet an investor's needs. If you think in terms of passively tracking an index, direct indexing enables an investor to create a blend of indices to meet their needs. The goal might be to outperform a benchmark through the selection of underlying positions based on different quantitative factors or evolving objectives.

Meeting Values-Based Investment Objectives

This personalization lends itself well for investors who are focused on ESG or values-based investments. Through direct indexing, investors can select individual securities they want as well as those they want to avoid, giving them the ability to create a personalized investment experience. Unlike with mutual funds or ETFs, direct indexing enables investors to avoid, or swap positions out that do not fit within their preferences. For example, environmentally minded investors can choose to invest in more sustainable companies and avoid those that do not meet their standards.

Proactive Tax Management for All Clients

Beyond the ability to create personalized strategies, one of the most appealing features of direct indexing is the tax benefits it can provide.

With direct indexing, investors own the underlying positions directly, creating multiple opportunities for tax management, including harvesting losses to offset gains within the portfolio and the ability to optimize the portfolio for taxes when rebalancing.

Investors can create personalized direct indexing strategies that are optimized for tax efficiency — meaning positions can be selected or omitted depending on their tax implication. This helps to provide improved after-tax returns, reduced overall tax burden, and the ability to manage and budget for capital gains when buying or selling within their portfolio.

At Orion, Custom Indexing starts with the selection of a target investment mandate that aligns most closely with the client's values, goals, and objectives. From there, advisors can customize the portfolio across a wide array of options including tax transitioning, setting capital gains budgets, applying social screens or security restrictions, among several other options.

Grow With Scalable Technology

As investors across the board expect more personalized services, direct indexing is a valuable differentiator for advisors to position their service offering to help clients reach their goals. In the past, the ability to offer personalized portfolios and tax optimization would require significant resources and might have only been offered by larger institutions or only to high-net-worth clients above a certain asset threshold.

Today, digital investing platforms and fractional share trading enable small amounts of money to be invested in each position in exchange for a fraction of a share, making direct indexing more accessible to mainstream audiences. Advisors can more easily offer this level of customized portfolio construction, management, and tax oversight with the ability to:

- Offer personalized, tax-efficient portfolios across their client base
- Help manage clients' tax liability through tax transition, tax loss harvesting, capital gains budgets, and tax optimized portfolio rebalancing
- Appeal to investors focused on ESG and other values-based investing
- Optimize and monitor client portfolios on an ongoing basis
- Attract and retain high-net-worth clients with solutions that address their tax management and customization needs
- Leverage technology to streamline processes and reduce manual operations
- Uncover additional revenue opportunities to grow their advisory business

Value Beyond Returns

Advisors can leverage direct indexing to effectively quantify the tax savings value they provide for their clients, as part of a larger conversation around fees.

For advisors using Orion Custom Indexing, the technology does the heavy lifting, making it fast and easy to customize a portfolio to include tax transitioning, capital gains budgets, social screens, or security restrictions in just a few clicks.

Advisors leveraging Orion's premier technology suite can save time and streamline trading, reporting and account maintenance by implementing custom indexing using a sleeved account at the custodian of your choice.

Deliver Personalized Investment Portfolios with Tax Advantages

As investor expectations around personalization and investment technology continue to evolve, direct indexing is likely to continue to grow in popularity. From tax-loss harvesting and tax transitioning to ESG, direct indexing provides advisors a valuable tool to offer bespoke, high-value, professionally managed portfolios that are customized according to the unique needs, values, and goals of their clients.

Learn more about how Orion Custom Indexing can help you deliver powerful personalization to every client.

2025-OAT-10/26/2022