

# UNLEASHING THE POWER OF DIRECT INDEXING

A COMPREHENSIVE GUIDE FOR  
INVESTORS AND ADVISORS



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## INTRODUCTION

Welcome to the world of direct indexing, where innovative strategies meet the modern needs of investors who seek greater control and customization in their portfolios. We hope this brochure serves as your gateway to understanding the potential benefits and applications of direct indexing, an investment approach designed to empower investors and their advisors with a differentiated set of opportunities.

In the following sections, we will explore the fundamentals of direct indexing, discover its potential advantages, and uncover its diverse applications in various financial scenarios. Whether you are an investor looking for more flexibility and tax efficiency or an advisor seeking sophisticated tools to address your clients' unique requirements, direct indexing offers a compelling solution.

Financial markets are always evolving, and that's why it's crucial to stay informed and equipped with cutting-edge strategies. This brochure is designed to provide investors and advisors with the insights and knowledge necessary to confidently navigate the direct indexing landscape. So, let's dive in and explore how direct indexing can potentially revolutionize your investment approach and redefine your financial success.

## DISCOVER THE POWER OF DIRECT INDEXING: UNLOCK CUSTOMIZATION AND CONTROL IN YOUR INVESTMENTS

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Direct indexing goes beyond the traditional investment options of mutual funds and ETFs by offering investors a more personalized and tailored approach. Rather than investing in a packaged vehicle that includes a pre-determined mix of securities, direct indexing allows you to purchase a selection of the individual securities that make up an index and build a customized portfolio that aligns with your specific goals, values, and circumstances.

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## SECTION 1

# *What is Direct Indexing?*

## WHAT IS DIRECT INDEXING AND WHY HAS IT BECOME SO POPULAR?

In its simplest form, direct indexing involves directly investing in the actual securities that make up an index. This is different from investing in exchange-traded funds (ETFs) that track an index or active mutual funds that try to beat a benchmark index. Mutual funds and ETFs are commingled funds: they package underlying securities into a single vehicle that investors can buy but not modify. Everyone who buys that mutual fund or ETF gets the same combination of securities. In other words, one size fits all.

Direct indexing, on the other hand, allows investors to own the securities that make up an index and hold them in a separately managed account (SMA). This gives the investor the same market exposure as the index but also gives them the opportunity to build a customized portfolio. The investor can exclude certain securities or increase their exposure to other securities to reflect their specific goals, needs, or circumstances.

This style of investing has long been available to high net-worth and institutional investors. However, due to the rise of fractional share trading and reduced commissions on trading stocks, direct indexing has recently become more widely available to retail investors.

Since most retail investors don't usually have the funds to buy all the securities that make up an index, providers of direct indexing products use sampling. Sampling is the practice of reducing the number of securities purchased but keeping the overall portfolio exposures in line to mimic the entire index. This has also helped to lower the overall costs and made direct indexing accessible to a broader range of investors.

Direct indexing is expected to grow at an annualized rate of more than 12% over the next five years<sup>1</sup>, according to a recent report by Cerulli Associates. According to the report, direct indexing is projected to surpass \$800 billion by the year 2026.

As investors become more sophisticated and knowledgeable, and as their needs become more complex, direct indexing can help advisors offer investors far more options than ever before. Each investor has unique preferences—some are more concerned about taxes, some prioritize aligning their portfolios with personal values and beliefs, while others may not have such preferences. Additionally, some investors wish to steer clear of certain industries due to specific reasons, whereas others want to gain extra exposure to certain industries to express their belief in a theme or trend. With direct indexing, meeting those needs is possible.

<sup>1</sup><https://www.cerulli.com/resource/white-paper-the-case-for-direct-indexing>

## WHY USE DIRECT INDEXING?

There are numerous benefits to directly owning the individual securities instead of investing in a packaged vehicle like a mutual fund or ETF. When investors opt for a packaged or commingled investment, they forfeit the ability to personalize or customize their exposures according to their preferences. Moreover, investors become subject to the actions taken within the fund, which could have significant implications. For instance, if the fund sells securities during the year, the fund company is legally obligated to distribute the gains to all shareholders for that year. This distribution of capital gains has long been a source of frustration for many investors, especially in active funds where managers frequently sell positions to realize gains. At the same time, fund managers are prohibited from distributing net losses.

## POTENTIAL ADVANTAGES OF DIRECT INDEXING

Direct indexing offers significant advantages in managing capital gains and losses. When an individual owns securities and sells them, it leads to either a capital gain or a capital loss. The challenge arises in active SMAs where the manager's turnover or selling activities can trigger capital gains for the investor. The more frequent the turnover, the higher the likelihood of generating capital gains that must be taxed in that year.

However, with direct indexing, any capital losses can be utilized to offset capital gains at the household level. This means the investor can balance out gains in the specific SMA, as well as gains in other parts of their overall portfolio. As a result, direct indexing can become a powerful tool to significantly reduce the capital gains distributions that often lead to substantial tax liabilities.

Since the objective of direct indexing is to track a particular index, and indexes have no turnover outside of reconstitution, the manager does not italicize to sell anything. Instead, the manager can strategically sell underperforming positions and replace them with other securities that help maintain close alignment with the index while realizing a loss.

As a result, when investors file their taxes, they will have these net losses that can serve two purposes. First, they can be used to offset gains in other parts of their overall portfolio, potentially reducing their overall tax liability. Second, any remaining net losses up to \$3,000 can be used in the current tax year. And if the net losses exceed \$3,000, they can be carried forward to be utilized in future years. This tax efficiency makes direct indexing a valuable option for investors seeking to optimize their tax outcomes.







## IS DIRECT INDEXING APPROPRIATE FOR EVERY INVESTOR?

Investors who closely monitor benchmark performance may not be entirely satisfied with direct indexing. Since direct indexing allows for customized exposures, the SMA's performance may deviate from the benchmark index. Anyone considering a direct indexing strategy should be comfortable with some level of tracking error.

Direct indexing offers a diverse array of options to meet the unique requirements of sophisticated investors who have complex needs. Direct indexing can also be combined with active management to create a single custom SMA. Having both direct indexing and active strategies can help address different investor needs.

## SECTION 2

# Top 5 Potential Benefits of Direct Indexing

Now that we've explored what direct indexing is and its growing popularity, let's delve into **the top five potential advantages** it offers investors who seek enhanced control, tax efficiency, and performance optimization in their portfolios.

# 1

### Tax efficiency

Tax efficiency is one of the most significant potential benefits of direct indexing. Unlike mutual funds or ETFs, which are required to distribute capital gains to their investors, direct indexing allows the investor to control when and how capital gains are realized. This means the investor can potentially reduce their tax liabilities by harvesting losses to offset gains or delaying the realization of gains until a more favorable tax year.

# 2

### Customization

Customization is another potential benefit of direct indexing. With this approach, investors have complete control over their portfolio. Investors can select individual stocks based on their preferences and investment goals and choose to include or exclude specific companies, sectors, or industries based on their values or beliefs. This level of personalization is not achievable with traditional investment options.

# 3

### Risk management

Risk management is another potential advantage of direct indexing. By owning individual stocks, investors can diversify their portfolio, potentially lowering exposure to risks linked to specific sectors or companies. Direct indexing allows portfolios to be tailored to an investor's unique risk tolerance and investment objectives, granting them greater control over their investments. This customization ensures that their portfolios align precisely with their risk preferences and financial goals.

*What this means for you as an investor*

### DIRECT INDEXING: TRANSFORMING TAX LOSSES INTO VALUABLE TAX ASSETS

Tax-loss harvesting is essentially a way to create valuable tax "assets." We all know that capital gains are an inevitable aspect of investing. Regardless of how the overall market performs, some stocks will go up while others may decline.

With direct indexing, you own the specific stocks that mirror your chosen index. The advantage here is that any losses harvested through this approach become the your property - in other words, an asset you can use in the future. These losses can be put to good use by offsetting future gains on federal tax returns. They can also be used to offset up to \$3,000 of ordinary income annually.

The flexibility of this strategy extends even further, allowing tax losses to be applied not only to an investment portfolio but also to gains resulting from selling your home or business.

# 4

## **Investing with purpose**

Faith-based, values-based, or beliefs-based investing preferences are vital considerations for many investors. Direct indexing provides a solid solution for those who prioritize specific faith-based, values-based, or beliefs-based criteria in their investment decisions. Through direct indexing, advisors can select stocks according to these particular criteria, and construct portfolios that align with the investor's values. This high degree of customization is nearly unattainable with traditional investment options, as they may not prioritize the exact faith-based, values-based, or beliefs-based factors that the investor does.

# 5

## **Impactful charitable giving**

Direct indexing provides investors a tax-efficient way to support causes that align with their beliefs and values. It allows investors to donate individual stocks that match the charity's focus and principles, resulting in a tax break while also making a positive impact on the causes they are passionate about. It's a potential win-win for investors who want to align their charitable giving with their investment goals.







## SECTION 3

# *Direct Indexing: A versatile tool for concentrated stock positions*

Sometimes, having too much of a good thing can lead to unexpected consequences. Some investors may have had a significant percentage of their portfolio in a certain popular streaming service. This service experienced impressive gains during the pandemic, and its stock soared in 2020 and 2021. However, things took a different turn in 2022. The stock dropped significantly due to various factors, including a declining subscriber base.

For investors who had a substantial portion of their portfolio tied up in this stock, the earlier gains could have propelled their wealth significantly, but the subsequent decline had an equally negative impact. A concentrated position in one or just a few stocks can pose potential risks for investors.

The solution, of course, is to diversify the portfolio. But diversification has a cost for many investors with substantial wealth in a concentrated position. There may be emotional ties to the company whose stock they hold. More importantly, if there have been substantial gains in the share price, there may be serious tax implications to divestment.

This is where direct indexing can be a tax-effective and measured way to reduce a concentrated stock position and diversify a portfolio.

## WHAT IS A CONCENTRATED STOCK POSITION? HOW MUCH IS TOO MUCH CONCENTRATION IN STOCKS?

A concentrated stock position is when an investor holds more than 10% of their portfolio in a single name.

While diversification remains a mantra in the investment industry for its ability to reduce volatility and potentially boost returns, the reality is that many investors do have a lot of eggs in only one basket. This happens for many reasons:

- The investor receives part of their compensation package in stock options. Over time, as the stock options vest in a taxable account, the holding can become quite significant and the cost basis low.
- The investor jumped on a particular bandwagon early, and as the stock appreciated in value, it grew to represent a large part of their wealth. Think of some of the early investors in Apple, for example.
- The investor was given shares as a gift by a parent or grandparent, or the shares were held for a long period of time, and their value grew to represent a large percentage of the investor's—or their family's—total wealth. It's worth noting that the stepped-up basis readjusts inherited assets when passed on after death.

*What this means for you as an investor*

## NAVIGATING CONCENTRATED STOCK POSITIONS: THE POWER OF DIRECT INDEXING

When success leads to concentrated stock positions, it's time to consider diversifying your portfolio. However, emotional ties and tax implications can make this a complex challenge. Enter direct indexing—a versatile tool offering tax-efficient ways to reduce concentration and optimize your investment strategy.

### **Unlocking Diversification:**

Concentrated stock positions can leave your portfolio vulnerable to market shifts. Direct indexing allows you to hold a basket of stocks that replicate an index, enabling effective diversification and risk management.

### **Potentially Minimizing Tax Impact:**

Divesting a concentrated stock position comes with tax consequences. Direct indexing allows you to offset capital gains from selling a concentrated holding with losses from other securities, helping you strategically navigate the tax landscape.

### **A Tailored Approach:**

Direct indexing offers customizable solutions to gradually reduce exposure to specific stocks or sectors. Your advisor can help you mitigate risks and enhance financial security through smart, tax-effective strategies.

With direct indexing as your ally, diversifying a concentrated stock position becomes a seamless and rewarding journey.

## ARE THERE RISKS TO HOLDING A CONCENTRATED STOCK POSITION?

Concentrated stock can be a meaningful way to build wealth, but there are risks when one or a handful of names dominate an investment portfolio. This makes the portfolio vulnerable to any stock-specific news. A significant downturn in the price of that company's shares can have a major effect on the overall wealth and future financial security of the investor and their family.

This risk becomes even more pronounced for those who acquire these concentrated positions through their workplace, as their financial and human capital become closely tied to one company or industry. A major negative event affecting that company or industry could have devastating consequences.

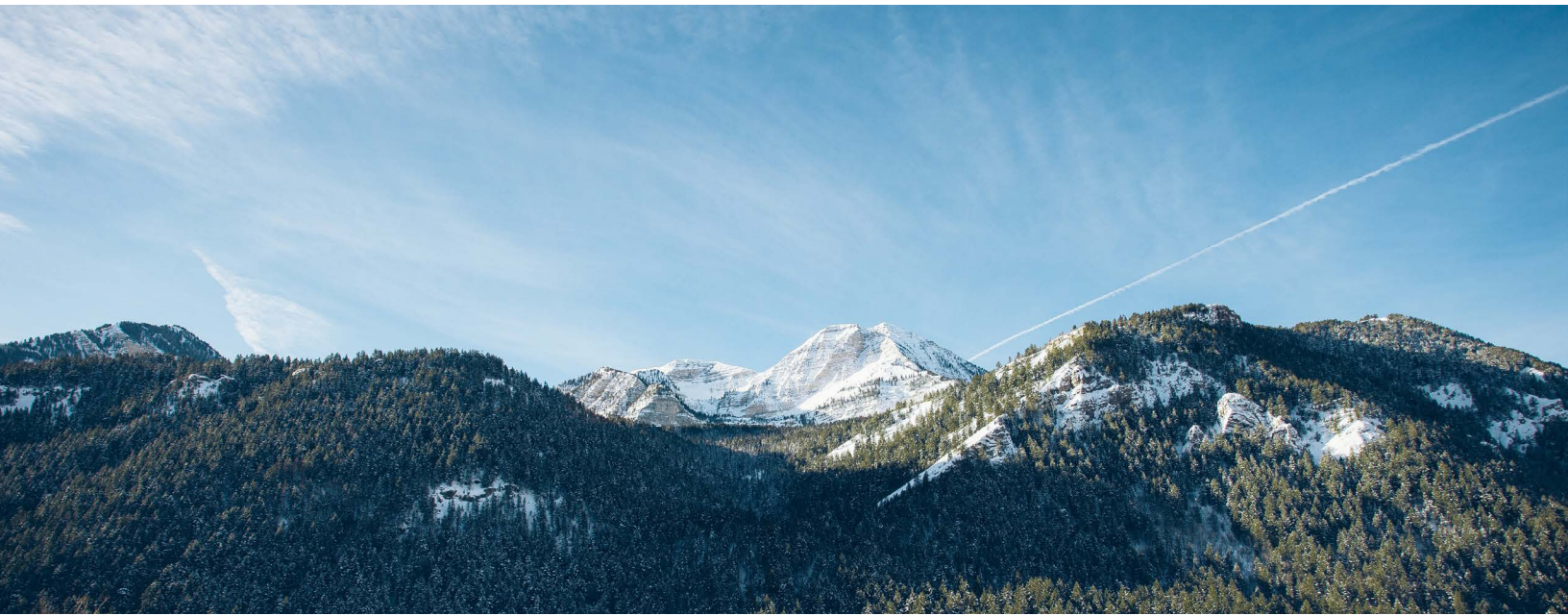
The Global Financial Crisis of 2008 serves as an illustrative example, as numerous financial institutions worldwide suffered or collapsed entirely. Many employees of these companies faced not just the loss of their job and potentially their pension, but also severe losses on their company's stock, eroding a significant portion of their savings.

It is essential for both advisors and investors to be aware of these risks and consider diversification as a means to effectively manage potential downsides.

## HOW DO YOU DIVERSIFY A CONCENTRATED STOCK POSITION?

Diversifying a concentrated stock position can present challenges for various reasons. Emotional attachment to the stock, whether because it was gifted by a beloved relative, is a long-term holding, or the investor was employed at the company, often complicates the decision-making process. Additionally, divesting a portion or all of the holdings must be carefully managed to address the associated tax costs, especially when the original cost of the shares is significantly lower than the current market value. That can result in substantial capital gains and potential tax liabilities.

One possible solution to navigate these challenges is through a direct indexing strategy within a SMA. Since direct indexing allows investors to directly hold a basket of stocks that replicate a specific index, they can offset the capital gains generated from selling the concentrated stock position with capital losses from other securities within the direct index portfolio. By employing this approach, investors can effectively manage their concentrated position, reduce risk, and optimize their tax outcomes.



## THE BOTTOM LINE

Direct indexing offers a versatile solution for reducing concentrated stock positions in an investor's portfolio. With this strategy, certain providers offer investors the flexibility to determine how much they want to take in capital gains annually until the concentrated position is reduced to a more manageable percentage. Alternatively, investors can choose to gradually reduce the exposure to the concentrated stock over a period spanning three to five years.

Moreover, direct indexing proves beneficial for investors looking to decrease their exposure to a specific sector or for those needing to reduce holdings for various reasons. For example, consider a scenario where a top banking executive joins a rival financial institution, holding a significant amount of their original bank's vested stock. In such cases, direct indexing offers a tax-efficient approach to remove that specific holding from their portfolio. Technology firm executives may also face similar situations, particularly given the substantial gains in tech stocks in recent years.

Investors with concentrated stock positions should work with their advisors to address the potential risks in their portfolios. Conducting a transition analysis can help investors explore different options to navigate a transition comfortably and optimize their investment strategies.



## SECTION 4

# *How to use Direct Indexing to Manage a Financial Windfall*

- Selling a business, property or large stock position can result in a financial windfall that may trigger a large tax liability
- A direct indexing strategy can help manage these tax burdens, either through a set timeframe or with an annual tax budget

Numerous high net-worth individuals have plans to sell a business, property, or sizeable stock position in the future. These types of sales often result in a significant capital gains tax liability that needs to be planned for years in advance.

With direct indexing, investors can proactively manage their portfolios to minimize capital gains taxes by strategically harvesting losses, offsetting gains, and implementing tax-efficient trading strategies. This approach can help investors navigate potential tax burdens effectively and enhance their overall financial strategies.

As mentioned before, a direct indexing strategy can potentially earn a return similar to a chosen benchmark while actively harvesting losses. These harvested losses can be accumulated and used to offset future capital gains, aiding in managing the investor's tax liabilities and potentially reducing taxes on their future financial windfall. Initiating this process early allows the investor working with their advisor ample time to adapt and make necessary adjustments as market conditions fluctuate and the investor's situation evolves.

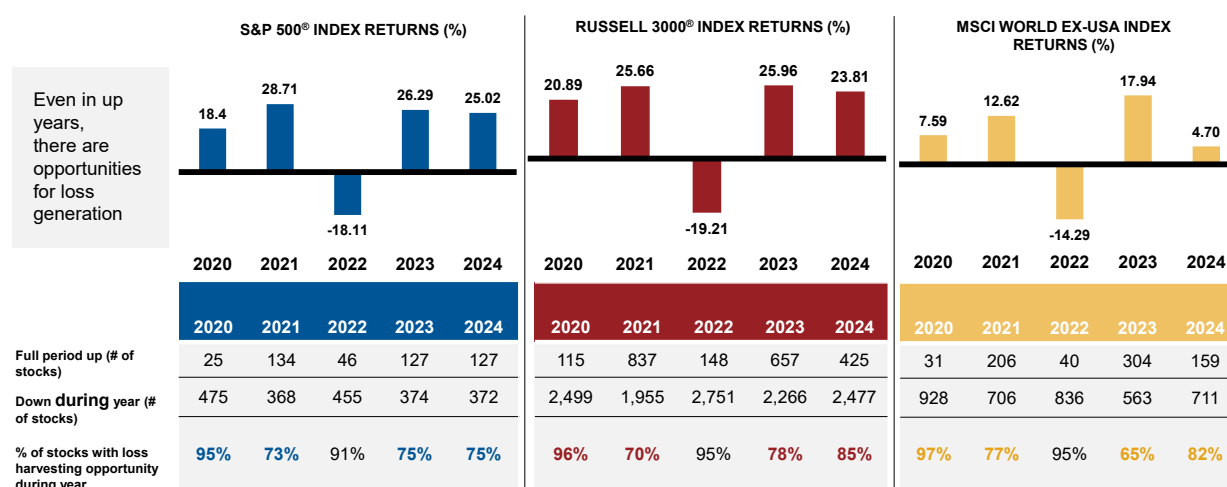
The first step should be to identify the potential for a windfall, taking into consideration factors such as the investor's proximity to retirement or any other significant life changes. Once the source and timing of the future windfall has been determined, direct indexing can be utilized to either gradually reduce the potential tax liability or effectively manage the tax burden within a specified budget parameter. This strategic approach ensures that the investor can make the most of their financial situation while optimizing their tax outcomes.

## HOW DOES DIRECT INDEXING ADDRESS THIS ISSUE?

Since an SMA is comprised of a basket of individual securities, each with its own cost basis, investors who utilize direct indexing have the flexibility to strategically buy and sell individual securities. While the process is more intricate, essentially investors can sell stocks that have decreased in value and replace them with similar ones. This ongoing process helps build tax “assets” for future use.

A common question raised is whether tax loss harvesting is only effective during market downturns. Surprisingly, every year stock markets present investors with opportunities to harvest losses. The chart below illustrates how many individual names within three key equity indexes experienced losses at specific points in the past five years, even though the overall indexes themselves showed significant gains in three of those years. Investors who had invested in a direct indexing strategy would have had the chance to take losses in those names and use them to offset gains, all while potentially maintaining performance similar to that of the index.

## EVEN IN “UP” YEARS, THERE ARE OPPORTUNITIES FOR LOSS GENERATION



Analysis is based on S&P 500, Russell 3000 and MSCI World Ex-USA Index constituents as of 12/31/2024. “Full period up” indicates stocks that were never down YTD at the end of any month during the year. “Down during year” means stock was down YTD for at least one month during the year. Stocks that do not have full year returns were excluded. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.



## LEVERAGING OPPORTUNITIES IN CHALLENGING MARKET CONDITIONS

While market outcomes are beyond our control, we can employ strategic approaches to capitalize on the market's volatility and harvest tax losses throughout the year. Direct indexing strategies offer a solution designed to generate returns akin to the S&P 500 while facilitating tax loss harvesting throughout the year.

Let's consider the two "down" years in the chart above. In both 2018 and 2022 there were significant opportunities to tax-loss harvest. Consequently, the portfolio could have realized a substantial percentage in losses that could be used to offset future gains. In both cases, the down years were closely followed by strongly positive years.

While this doesn't fully compensate for the challenges it certainly mitigates the impact.



## SECTION 5

# *How Direct Indexing Can Benefit You as a High Net-Worth Investor*

As a high net-worth investor, managing significant wealth comes with unique challenges—especially when it comes to minimizing taxes and aligning your portfolio with your personal goals.

This is where **direct indexing** stands out as a powerful and innovative approach. Unlike traditional investment strategies, direct indexing gives you a way to own a personalized portfolio of stocks that mirrors a benchmark while allowing for tailored customization. It also enables proactive tax management through tax loss harvesting, which can help offset gains elsewhere in your financial plan.

Despite its many benefits, direct indexing remains underutilized, even among affluent investors who stand to gain the most from it. By exploring this strategy, you can take a forward-thinking approach to wealth management—optimizing tax outcomes, reducing financial inefficiencies, and aligning your investments with your values or long-term objectives.

If you're looking for a way to gain greater control over your wealth while improving tax efficiency and personalization, direct indexing might be the solution you've been missing.

## HOW CAN DIRECT INDEXING HELP YOUR INVESTMENT STRATEGY?

At its core, direct indexing is a personalized investment approach. It enables you to own a custom basket of stocks that mirrors the performance of a benchmark while offering flexibility for customization and tax loss harvesting. This means potential tax savings that can enhance your overall financial strategy.

If you're wondering whether this approach could fit your needs, here are three key questions to consider:

### 1. Are You Expecting a Substantial Financial Windfall?

If you anticipate selling a business, property, or significant stock holdings, you'll likely face considerable capital gains taxes. These events require strategic planning well ahead of time to manage the tax implications effectively.

Direct indexing can help. By adopting this approach early, you can generate benchmark-like returns while harvesting losses that can offset future capital gains. These harvested losses can act as a powerful tool to reduce your overall tax burden when the time comes.

Starting this process sooner rather than later gives you the flexibility to adjust to market changes and refine your strategy as your financial situation evolves.

### 2. Are Your Mutual Fund Holdings Creating Unnecessary Tax Burdens?

Many high net-worth investors experience capital gains taxes from their mutual fund holdings, even if they didn't sell shares. These distributions can be frustrating and costly.

Direct indexing offers a solution. Unlike mutual funds, direct indexing involves a separately managed account. This setup avoids unwanted capital gains distributions, providing a more tax-efficient way to invest while keeping you in control.

### 3. Do You Hold a Concentrated Stock Position?

If you've accumulated significant holdings in a single stock—perhaps through equity grants, stock purchase plans, or options—you may be exposed to unnecessary financial risk. Additionally, this stock could be sitting in an unmanaged account, leaving its potential untapped.

Direct indexing allows you to address this challenge by systematically reducing your exposure to the concentrated position in a tax-efficient way. Loss harvesting can help offset capital gains as you pare down your holdings over time, minimizing tax liabilities. Alternatively, the exposure can be reduced gradually, taking gains over a few years while mitigating taxes through the same loss harvesting techniques.

## The Bottom Line

Direct indexing is more than an investment strategy: it's a tailored solution for managing taxes, diversifying your portfolio, and preparing for significant financial events. If you want to optimize your wealth and take advantage of these benefits, direct indexing might be the perfect fit for your financial journey.

## SECTION 6

# Key Criteria to Consider When Choosing a Direct Indexing Provider

When seeking a reliable direct indexing provider, we believe there are 10 essential criteria that advisors and investors should carefully evaluate.

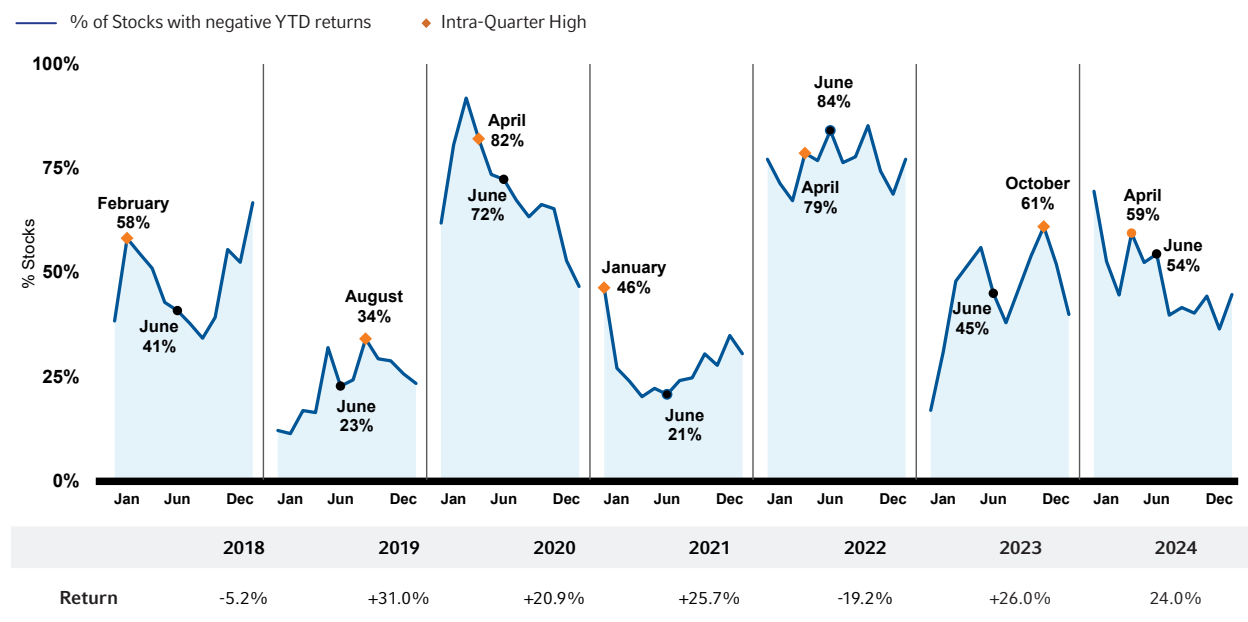
### 1. TAX MANAGEMENT EXPERIENCE.

First and foremost, consider their expertise in tax management. Direct indexing's main advantage lies in tax optimization through strategies like tax-loss harvesting and capital gains management. It is crucial to partner with a provider who has proven capabilities in implementing these tax-efficient techniques.

### 2. TRACK RECORD AND EXPERTISE.

Consider the provider's experience in managing indexed portfolios, the performance of their strategies over time, and their understanding of tax-management techniques. For example, many providers only do tax-loss harvesting quarterly. While that's better than not doing it at all, providers who only tax-loss harvest four times a year may be missing out on numerous opportunities.

## MONTHLY TAX LOSS HARVESTING OPPORTUNITIES



- Even in up markets, opportunities to tax-loss harvest have been attractive
- A more frequent approach prevents opportunities from slipping through the cracks

Source: Morningstar Direct. Stocks: Russell 3000 Index constituents. Returns are year-to-date using previous year end index weights. Stocks that do not have full year returns were excluded.

### **3. FLEXIBILITY.**

Flexibility is another crucial aspect to contemplate. Can the provider seamlessly integrate with the investor's other investment accounts or holdings? An effective partner should be capable of managing various aspects, including concentrated stock positions, regardless of size or percentage of the overall portfolio.

### **4. TRANSITION MANAGEMENT.**

Transition management support is vital in smoothly shifting an investor's portfolio to the new direct indexing solution. Look for providers who offer structured and well-developed transition analysis to manage the migration process while minimizing the tax burden. This can be a powerful tool to determine the optimal process for migrating a concentrated or unmanaged portfolio while managing the related tax burden.

### **5. ACCOUNT MINIMUMS.**

Consider account minimums when considering different direct indexing options. Although direct indexing was initially built for high net-worth investors, it can appeal to a wider investor base. Many providers using a purely passive approach require higher minimums. An active manager typically has fewer holdings than passive managers, meaning their minimums are often lower, which makes them more accessible to a larger group of investors.

### **6. RESEARCH AND INVESTMENT METHODOLOGY.**

Understand the provider's research and investment approach and look for transparency regarding their investment methodology, the factors they consider when constructing portfolios and their approach to risk management. A sound investment philosophy and disciplined approach to portfolio construction are essential.

### **7. CUSTOMIZATION OPTIONS.**

Direct indexing allows for more customization options compared to traditional mutual funds or ETFs. Look for a provider that offers a wide range of customization options such as the ability to exclude specific stocks or sectors, implement tax optimization strategies and align the portfolio with an investor's values, preferences, or beliefs.

### **8. PASSIVE? ACTIVE? OR BOTH?**

Most investors would likely see the value of having a choice between passive and active management. They may want a blend of the two approaches. Finding a provider that offers a selection of completely passive, completely active or the ability to combine benchmarks, is critical in allowing investors to make the appropriate choices. Active management and direct indexing each have their own benefits and can complement each other. Having both also provides optionality for different investor needs.



## 9. COST STRUCTURE.

Direct indexing typically involves separately managed accounts, and the fees associated with these services can vary. Understand the provider's fee structure, including management fees, overlay costs, and any additional charges, to ensure it aligns with the investor's goals and budget.

## 10. INDUSTRY RECOGNITION.

Finally, assess the provider's industry recognition and experience. Longer tenure and peer recognition can provide a sense of comfort, indicating a provider's ability to handle the complexities of direct indexing effectively.

In conclusion, selecting the right direct indexing partner requires a keen eye for detail. Evaluating these 10 criteria will help select the partner that aligns with the investor's goals and provides a personalized and tax-efficient investment experience. Start by examining the asset manager's background in tax management to identify a provider with a tried-and-true process in place.

## NEXT STEPS

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Congratulations! You've now embarked on a journey to unlock the full potential of direct indexing. The knowledge and insights gained from this brochure may help you make informed decisions that can potentially lead to significant advantages in your investment approach. As you move forward, we encourage you to leverage the power of direct indexing to its fullest.

For investors, seize the opportunity to customize your portfolio, align it with your values, and potentially enhance tax efficiency—all while maintaining a high level of control over your investments. Empower your financial future with direct indexing and see how this approach can reshape your path to success. Contact your financial professional for more information.

For advisors, harness the potential of direct indexing to offer tailored solutions to your clients, addressing their unique financial goals and challenges. As a sophisticated tool in your arsenal, direct indexing can set you apart in the advisory landscape and help your clients achieve their goals.

So, whether you are an investor or an advisor, now is the time to act. Embrace the power of direct indexing and take charge of your financial destiny. Embrace innovation, seize control, and potentially elevate your investment strategy with direct indexing. Your journey to a more empowered financial future begins now.

## ABOUT PERSONALIZED MANAGED ACCOUNTS

Direct indexing is offered through Russell Investments' Personalized Managed Accounts (PMA) program. PMA is a distinctive solution of customizable Separately Managed Accounts tailored to investors' unique and specific needs. The PMA program allows you and your advisor to take control of your holdings while simplifying and streamlining your portfolio. This includes advanced tax management, customization for personal needs as well as personal wants, transition management as you move an existing account or holdings into PMA, right on down to transparency into your portfolio's holdings and trading activity. Russell Investments also offers active SMAs within its PMA structure. PMA leverages Russell Investments' extensive investment manager research, selection and monitoring process. This process is our trademark, forming the cornerstone of our advice to global institutional investors for more than 50 years.

## ABOUT RUSSELL INVESTMENTS

Russell Investments is a leading global investment partner providing tailored solutions and services to institutions and individuals through financial intermediaries. Russell Investments is dedicated to improving people's financial security. Our approach incorporates in-depth manager research to select some of the world's leading institutional investment managers and strategies, offering the best ideas of each manager within well-diversified separately managed accounts and mutual funds.

## QUESTIONS?

If you're an investor, ask your Financial Professional for more information on direct indexing options available to you.

If you're a Financial Professional, your Russell Investments representative can help you build the right direct indexing strategy for your clients.

**IMPORTANT RISK DISCLOSURES:**

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Diversification and strategic asset allocation do not assure a profit or guarantee against loss in declining markets. Please remember that all investments carry some level of risk. There are no assurances that the objectives stated in this material will be met. Investment in one or more separately managed accounts is not a complete investment program and involves risk; principal loss is possible. The principal value of the account is not guaranteed at any time.

Personalized Managed Accounts ("PMA") is a program of Russell Investment Management, LLC (RIM) and offers customized portfolio management services.

Each Personalized Direct-Indexed Separately Managed Account is a product of Russell Investment Management, LLC ("RIM") and offered through RIM's Personalized Managed Accounts ("PMA") program. It represents a direct indexed portfolio provided by RIM. PMA is a separately managed account program of individually owned securities that can be tailored to meet investor's investment objectives. RIM offers diversified, single or multi-asset managed accounts that can be customized to the investor's investment objectives, circumstances and preferences, such as (but not limited to), market exposure, risk management, tax management, category and theme-based restrictions, and return objectives. Excluding any allocations to pooled investment vehicles, if any, each investor's account is managed separately from other investor accounts, allowing for a personalized experience to deliver unique investment outcomes.

The decision to use PMA in investors' portfolios and related investment advice are provided through financial advisors and other financial intermediaries that are independent of RIM and its affiliates. Investors should consult their financial advisor to determine which services and programs are appropriate to meet their investment objectives.

Nothing contained in this material is intended to constitute legal, tax, securities or investment advice, nor an opinion regarding the appropriateness of any investment. The general information contained in this publication should not be acted upon without obtaining specific legal, tax and investment advice from a licensed professional.

Indexes and/or benchmarks are unmanaged and are provided for general comparison purposes only. They cannot be invested in directly. Returns represent past performance, and are not a guarantee of future performance, and are not indicative of any specific investment.

**INDEX DEFINITIONS:**

**Russell 3000® Index** measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

**The S&P 500® Index** is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States. The stocks included in the S&P 500® are those of large publicly held companies that trade on either of the two largest American stock market exchanges: the New York Stock Exchange and the NASDAQ.

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First used: September 2023. Updated February 2025. RIM-03698