Direct Indexing: The Advisor, ESG and Me

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Young, socially conscious investors accustomed to self-serve, high-tech platforms are left cold by packaged product and one-size-fits-all solutions. They expect portfolios to reflect their aspirations and beliefs. Robo-advisory propositions with a superior user experience and built-in guardrails appeal to their needs and values.

Meeting the needs of these investors presents an opportunity for the advisor. These investors are far more likely to embrace socially responsible investing than are their parents, from whom they stand to inherit the bulk of U.S. consumer wealth. Their motivations and triggers are distinctive, in that social and corporate governance issues rival the environment in their calculus. An investment decision may hinge, for example, on how a firm treats its employees.

As investors heed their hearts, advisors have a chance to stand up and help them realize their ideals. Direct indexing is not a silver bullet, but it makes meeting client expectations more manageable. It does so by automating the laborious task of re-creating an index. This shift in focus away from portfolio mechanics allows advisors to focus on planning and other high-value advice functions.

Key questions discussed in this report:

- In what ways are younger investors more focused on ESG concerns than their parents are?
- What are the opportunities for investment advisors in meeting these investors' demands?
- How can emerging technology be harnessed to make that process more manageable for the advisor and the results more appealing for the client?

Companies Mentioned: Altruist, Aperio, BlackRock, Canvas, Charles River, Charles Schwab, Eaton Vance, Ellevest, Envestnet, Ethic, Fidelity, FNZ Trust, Folio Financial, Goldman Sachs, Just Invest, Morgan Stanley, Motif, MSCI Barra, O'Shaughnessy Asset Management, OpenInvest, Optimal Asset Management, Orion, Parametric, Qontigo, Robinhood, SEI, Smartleaf, SMArtX, SoFi, State Street, Veriti

The data in this report was primarily collected from a *Cogent Syndicated ESG 360* survey of 2,072 affluent investors conducted in September 2020. Respondents were selected based on gender, region, age, education, and income criteria to achieve a representative sample of the affluent-investor population in the United States.

Affluent investors are defined as household decision-makers with at least $100,000 in investable assets. Investable assets are understood to include defined contribution plan assets—for example, 401(k) holdings—and individual retirement accounts (IRAs); they do not include personal property such as real estate.