



Baird, RiverFront Acquire Stake in Direct Indexing Shop

Baird and RiverFront Investments enter the direct indexing fray with a minority interest in Gamma Investments.

By Mariana Lemann | January 11, 2022

Baird and investment affiliate **RiverFront Investment Group** have jumped on the direct indexing bandwagon by acquiring a minority stake in direct indexing shop **Gamma Investing**.

Gamma Investing has amassed \$20 million in assets under management since **Lorraine Wang** launched the direct indexing separately managed account specialist in January 2021, following a career of more than 14 years at **Invesco**. Gamma retains its operational independence after the transaction's close on Jan. 3, according to the firms' executives.

"[Wang] was looking for strategic partners and we were really interested in the direct indexing space," said **Karrie Southall**, chief operating officer at RiverFront. "[Custom indexing] is just such a hot topic and there's so much opportunity... that this was just a great investment for us."



RiverFront expects custom indexing strategies to grow faster than mutual funds and exchange-traded funds.

Wang, who led Invesco's global head of ETF products and research at Invesco PowerShares before striking out on her own, also has ambitious plans in the direct indexing space.

"I believe that direct indexing is the next game changer in asset management since ETFs," she said. "The primary reason direct indexing would be a game changer is because of the benefits that they could provide to advisors and clients that funds are not able to offer... The space is in the very early innings."

Direct indexing SMAs allow investors to customize strategies according to their goals, social values and tax situations. Technology has allowed managers to expand their target markets by requiring lower account minimums.

Assets in direct indexing strategies tripled between 2018 and 2020 to reach \$215 billion, and account for 17% of the retail separately managed account market, according to an October study by **McKinsey**.

The outlook for growth in the direct indexing space remains "very positive," said **Ju-Hon Kwek**, senior partner at McKinsey's New York office. The first few weeks of the year suggested that volatility will be stronger this year, increasing the appeal of tax-aware strategies, he added.

"On the supply side, a number of the large players have built or acquired direct indexing capabilities and invested to educate financial advisors," Kwek said. "You are going to start getting greater awareness and penetration in the market."

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Managers have flocked to the direct indexing space over the past year, mainly through acquisitions. The list of managers that took steps to play in the space include **PGIM, Franklin Templeton, BlackRock, Vanguard** and **Morgan Stanley**, which scooped up the largest player in the direct indexing space – **Parametric Portfolio Associates** – through its \$7 billion acquisition of **Eaton Vance**. Managers aiming to differentiate themselves in the custom indexing space need to strive for higher levels of customization, Wang said. She also highlighted investing and operational independence as competitive advantages.

“Independence is very important to us because it allows us to be nimble and flexible in bringing innovation in this space and not to have baggage in terms of existing processes and technologies,” she said.

Gamma will use its in-house sales team and third-party distributor **Valor Consulting and Distribution** to market its products.

“With this transaction, what we need the most is distribution, expertise, guidance and resources,” Wang said.



Terms of the acquisition, including the size of the stake, were not disclosed.

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