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Customized at Scale: A Framework for Next-Generation Advisory Platforms

Comprehensive tax-aware portfolio customization
is crucial to the future of wealth management

October 2025

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FOREWORD

Customized at Scale: A Framework for Next-Generation Advisory Platforms

At Parametric, we continuously strive to maintain our position as a leader in the direct indexing space, and like everything else we do, we turn to data to help us do that. To that end, we engaged Cerulli Associates to produce a new report on the evolving role of customization within the wealth management industry.

Cerulli conducted a series of 26 executive interviews across the industry about investment products and processes. This report expands on previous reports from Cerulli while confirming that personalized portfolios have become essential to wealth management. Today's investor demands customized solutions that emphasize tax efficiency and household level oversight. We work closely with wealth managers and financial advisors to meet those needs. This year's report offers deeper analysis than we've seen in the past, shedding light on where the industry is likely headed: the evolution of technology, products and processes; and what financial advisors need to consider going forward.

We're proud of our 30-year-plus history of offering customized investment solutions driven by the needs of our clients. We continue to innovate and build on that history. The insights we gain from independent reports like this one help us continue developing and refining our approach to designing portfolios that respond to investors' evolving needs and solving implementation challenges.



A handwritten signature in black ink that reads "Thomas Lee".

Thomas Lee, CFA

*Co-President and Chief Investment Officer
Parametric*



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Executive Summary



Most affluent investors agree that it is important to have their accounts customized (78%) and that their provider helps them reduce their tax bill (69%). The greater concentration of assets within the high-net-worth (HNW) investor segment (*i.e.*, more than \$5 million in investable assets) has also contributed to increased demand for customization and investment tax management.



To meet this demand, financial advisors are increasingly leveraging tax management capabilities made available by their firms or their asset manager and technology provider partners. Nearly half (47%) of financial advisors currently offer tax planning services. While advisors' value proposition has evolved to focus on fee-based business and offering financial planning services, it is increasingly clear that they are positioning investment tax management as a differentiator.



Wealth manager home offices, asset managers, and technology providers are working to provide financial advisors with a comprehensive suite of process and product solutions that can be deployed to create portfolio strategies that can be customized, notably through tax management, at the household level. Asset managers and technology providers don't have the same legacy infrastructure challenges that wealth managers do, and as such are expected to be nimbler and more flexible in their pursuit of innovation.



Process solutions are focused across three main phases of the client investment lifecycle: process onboarding transformation (*e.g.*, incoming portfolio assessment, tax budgeting), active tax management (*e.g.*, tax-loss management, tax savings reporting), and distribution optimization (*e.g.*, tax-smart withdrawals).



Product solutions, typically from asset managers, are customizable investment solutions (*e.g.*, direct indexing, custom bond SMAs, tax managed equity long/short SMAs) or tax-favored vehicles (*e.g.*, ETFs, exchange funds, section 351 exchange funds). In the case of customizable investment solutions, the asset manager is responsible for customization, most frequently tax-loss management, within the individual sleeve.



Few firms have made significant progress in creating a comprehensive platform of process and product solutions—evidence of how formidable an undertaking this is. Those farthest along appear to be the largest broker/dealers (*e.g.*, Morgan Stanley) that fit into Cerulli's 'Enterprise Scale' persona. These firms have managed assets in excess of \$1 trillion and have built or acquired proprietary process solutions they are seeking to complement with proprietary and non-proprietary product solutions.



Outside of those largest firms, the 'Emerging Enterprise' and 'Growth-Oriented Boutique' personas that represent mid- and small-sized firms will need to either partner and integrate or fully outsource to get access to the most comprehensive suite of process and product solutions. In addition to accessing best-in-class technology and investment products, firms considering partners or outsourced capabilities must assess connectivity (*e.g.*, data integration), ease of use (*e.g.*, UX/UI experience, flexibility), and client service resources, among other factors.

Introduction

In 3Q 2025, Cerulli Associates was engaged by Parametric Portfolio Associates LLC (Parametric), a registered investment advisor, to publish a white paper focused on the role of customization within the U.S. retail wealth management industry. The research evaluated the processes (e.g., portfolio onboarding, active tax management, distribution optimization) and investment products (e.g., direct indexing, custom bond SMAs, tax-managed equity long/short) that are available to wealth manager home offices and their financial advisors to provide customization potential, particularly related to tax management. Finally, Cerulli Associates examined how wealth managers are planning to access these processes and investment products—specifically, whether they plan to build them internally, acquire them, or partner with an asset manager or technology firm to access them.

For original research, Cerulli conducted a series of 26 executive interviews with industry participants, across asset managers, wealth manager home-office executives, financial advisors, and other firms. The white paper also draws from Cerulli's industry-leading databases, including its Advisor Research Collaborative (ARC) (more than 2,000 responses annually), managed accounts surveys (greater than 90% of industry assets reporting quarterly), Cerulli Affluent Investor Tracker (CAIT) (6,000 affluent investors annually), and wealth management market sizings (widely recognized as the industry's most reliable).

Executive Interview Participant Details, 2025

■ Financial Advisors

Includes financial advisors with at least \$100 million in AUM and at least 10% of client assets in SMAs.

■ Wealth Management Executives

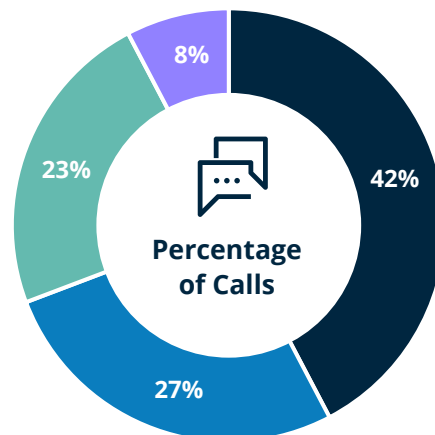
Home-office executives with insight into their firm's managed account program(s), including processes and investment products available to financial advisors.

■ Asset Manager Executives

Investment, Product, and/or Distribution executives at asset management firms that offer technology solutions (e.g., overlay management) or investment products (e.g., direct indexing, custom bond SMAs) that enable customization.

■ Platform Technology Providers

Executives at other firms within the U.S. wealth management ecosystem that support managed account platforms and help enable customizations, particularly related to tax management.



Source: Cerulli Associates

SECTION 1

The Next Evolution of the Financial Advisor Value Proposition: Tax Management Customization

There is an evolution underway within the U.S. wealth management industry, as several factors are converging to create a greater emphasis on customization, particularly around tax management. From the demand side, end-investors and financial advisors increasingly value customization and tax management. Enabling this are efforts from wealth managers, asset managers, and technology providers, which are innovating to develop solutions for customization broadly, but especially those related to tax management.

Investor Demand

Investors are experiencing customization in many facets of their everyday lives (e.g., Amazon/Whole Foods, Netflix, Google, Spotify) and have come to expect it from their financial services

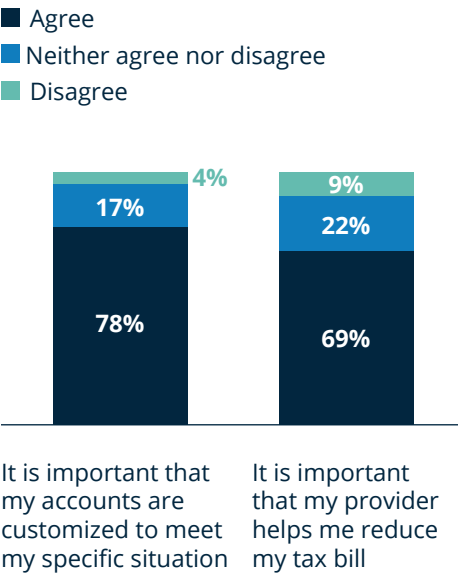
providers. Nearly 80% of affluent investors from a recent Cerulli survey agree that it is important that their accounts are customized to meet their specific situations. More specifically, 69% of affluent investors agree that it is important their provider helps them reduce their tax bill.

Financial advisors tell Cerulli that their clients are bringing taxes up in a way they have not historically. This, at least in part, stems from the greater concentration of total U.S. assets in high-net-worth (HNW) households, or those with more than \$5 million in investable assets. These clients are more likely to require customization and care most about the impact of taxes. As outlined in Exhibit 2, financial advisor-managed HNW client assets

have witnessed a marketshare increase from 49% in 2013 to 66% in 2023. As of 2023, there is \$20.6 trillion in advisor-managed HNW assets, compared to \$10.8 trillion in non-HNW assets.

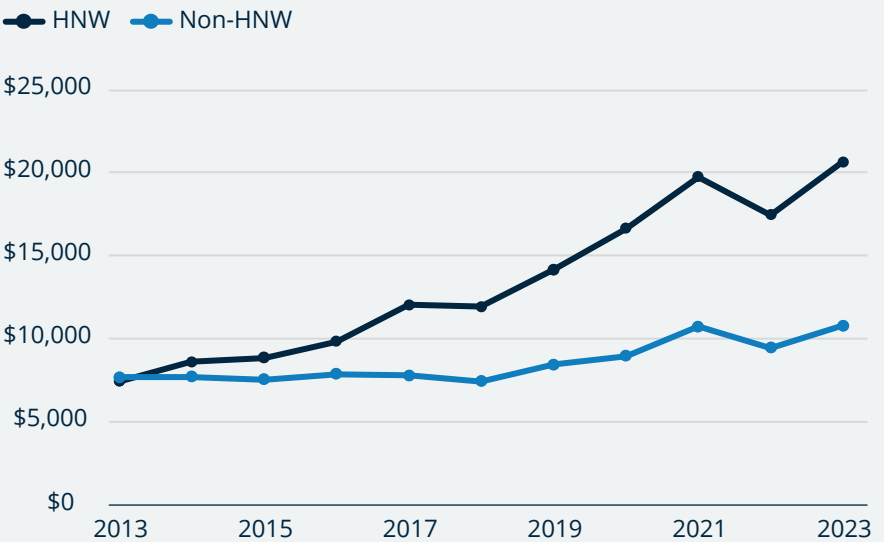
“Taxes are the number one expense that virtually everyone has, and when we talk about that, you instantly have an ally and a client, whenever you’re talking about saving money on taxes, 100 out of 100 people love you.”
– Financial Advisor

Exhibit 1
Affluent Investors: Importance of Account Customization and Tax Reduction, 2024



Source: Cerulli Affluent Investor Tracker

Exhibit 2 | Financial Advisor-Managed Assets, 2013-2023 (\$ billions)



Sources: Cerulli Associates, Investment Company Institute, Insured Retirement Institute, Investment News, Judy Diamond, Department of Labor, PLANSPONSOR, S&P Capital IQ MMD, Financial Planning, Financial Advisor Magazine, Investment Advisor Magazine

Financial Advisor Demand

Financial advisor behavior is also driving this evolution, as they are proactively considering how they can provide a more customized experience for their clients. When they customize, their efforts are often concentrated on mitigating taxes. They have witnessed their primary value proposition shift away from managing investments with an aim to beat a benchmark to holistic financial planning that uses investment products to help achieve goals. Financial advisors are increasingly seeking to better incorporate advanced financial planning services, such as the consideration of tax consequences, into their financial planning offerings, in a move to try to further differentiate themselves from their peers.

“Clients are concerned about taxes, but even if they’re not, I bring it up as a point because that’s a value add. If they haven’t thought of it, that’s an easy layup for me to talk about and address.”
– Financial Advisor

Managing investments is still important and a core part of their practices, but they are more willing to build model

portfolios or leverage them from their home office or an asset manager partner. In fact, they also report being less reliant on managing investments to substantiate their fees. Instead, several advisors mentioned they now feel that they can more effectively validate the fee they charge by providing tax savings. In turn, this has increased the level of importance of being able to demonstrate tangible tax savings.

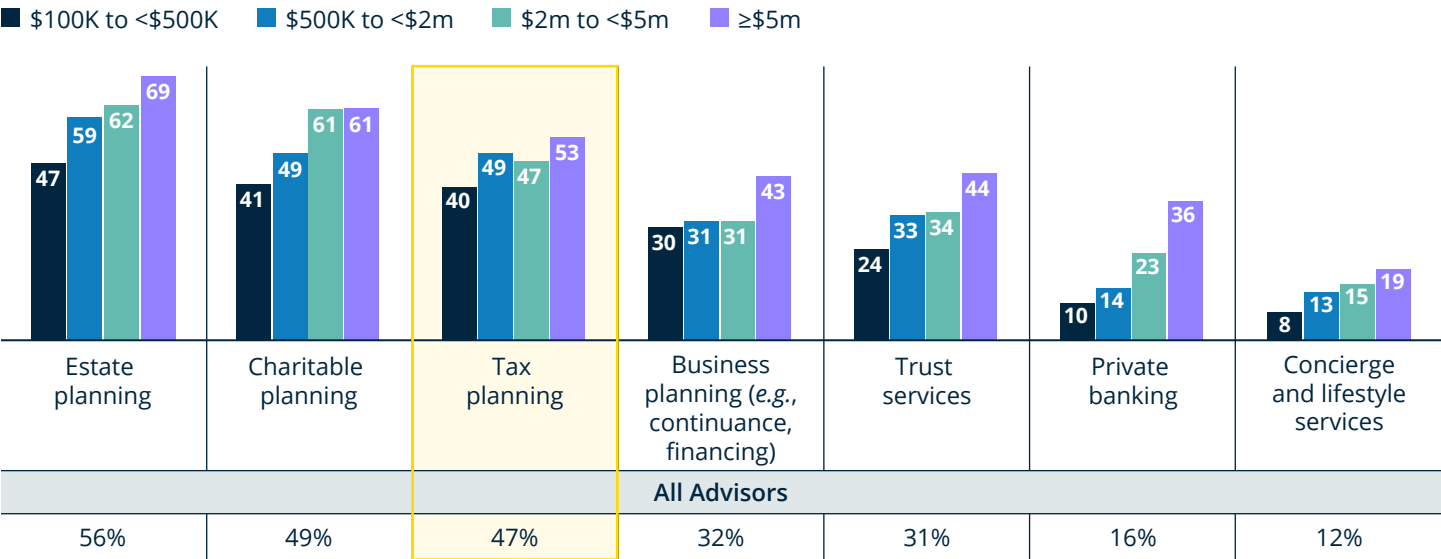
Financial advisor data substantiates this evolution, with nearly half (47%) of financial advisors offering tax planning services. For financial advisors with a client core market of greater than \$5 million, this percentage increases to 53%. While advisors currently view tax management as a potential differentiator, this data suggests that customization and advanced planning capabilities, such as tax management, are increasingly considered baseline capabilities for serving higher-net-worth households. Furthermore, these capabilities won’t be reserved for HNW clients for long, as many wealth managers, asset managers, and technology providers are working to migrate them downmarket to mass-affluent wealth tiers (i.e., clients with less than \$2 million in investable assets).

CERULLI NOTABLE:
Tax minimization and wealth preservation are the most important investment objectives reported by HNW-focused practice and firm leaders, with 73% considering them very important.

CA

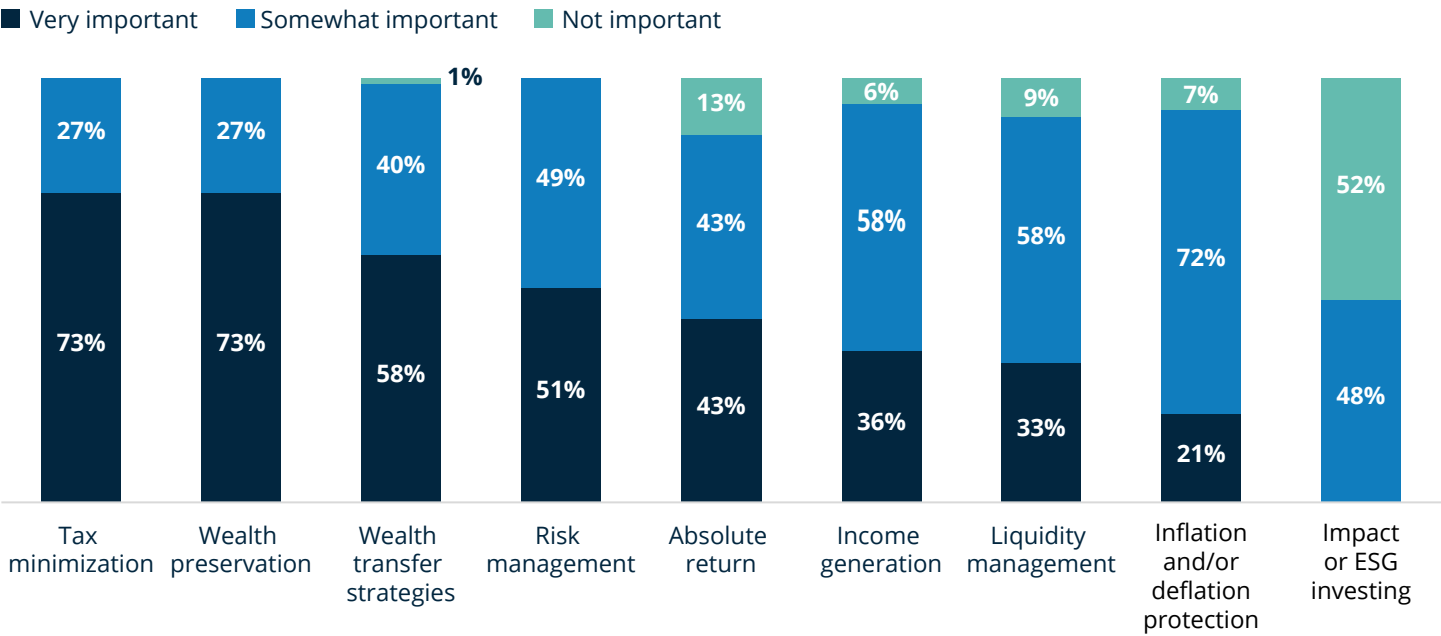
Core Market	Number of advanced planning services offered
\$100K to <\$500K	2.1
\$500K to <\$2m	2.6
\$2m to <\$5m	2.9
≥\$5m	3.4
All Advisors	2.5

Exhibit 3 | Financial Advisors’ Advanced Planning (HNW) Services by Client Core Market, 2024
(percentage of respondents)



Source: Cerulli Associates | Analyst Note: The <\$100K client core market segment was excluded from this analysis as they are not a client segment commonly using these services. Evaluating third-party lending products was an option but was selected by less than 15% of advisors across all client core market segments and therefore is not presented in this analysis.

Exhibit 4 | HNW Practices: Most Important Client Investment Objectives, 2024



Source: Cerulli Associates 2024 Private Wealth Management Executive Survey | Analyst Note: Participants were asked, “What are the most important investment goals/objectives among your HNW clients?” This data reflects a firm-level perspective as the survey respondents were heads of wealth management divisions, trust departments, or leaders of independent firms (i.e., RIAs and MFOs).

Developing Customization and Tax Management Capabilities

As demand from investors and advisors converges to drive the evolution toward customization, particularly related to tax management, there has been a corresponding investment in enhancing the capabilities and tools financial advisors have access to. Wealth managers are positioned well to lead this effort, as they manage the advisor experience and are closest to the client relationship and data required to enable customization and tax management. However, this push to develop capabilities is not limited to wealth managers, and there is innovation coming from third-party technology providers and asset managers. In fact, many are viewed as nimbler and are not encumbered by legacy infrastructure and technology, so they can innovate faster than many traditional wealth managers.

This leaves wealth managers with major decisions as it relates to sourcing customization capabilities to implement tax management and other desired outcomes being sought by both their advisors and their clients. Should these be built internally or acquired? Should they lean on partnerships with technology providers and asset managers that may be able to provide best-in-class capabilities sooner, and potentially cheaper? Is it a combination of these sources?

Throughout the rest of this white paper, Cerulli answers these questions and defines what these capabilities are and the key considerations for wealth managers and financial advisors looking to source them.



SECTION 2

Processes and Products Enabling Customized Outcomes

Advisors are focusing on their value as comprehensive wealth managers and increasingly seeking to capitalize on the benefits of customized tax management at the household level. A truly holistic approach to optimal portfolio management begins even before an account is funded and continues through to transitions to the next generation of clients' inheritors. Unfortunately, this process is incredibly complex with thousands of competing variables to consider, and few advisors have access to a full suite of platform tools to assist them in designing and implementing an investment strategy that provides optimal household portfolio outcomes. To remedy this, 82% of managed account sponsors agree that improving tax management capabilities (e.g., transition, loss harvesting) is a top priority for their firm moving forward.

The solution suites available with any wealth management provider can range from completely proprietary to fully outsourced to an asset manager or turnkey advisory platform. However, given the breadth of potential client needs, most platforms operate on a collaborative basis with a combination of proprietary, customized white-label, and outsourced offerings. The key for each competitor in the wealth management landscape is identifying which combination of solutions is most suited to provide the best attainable user experience with optimal portfolio outcomes across the firm's specific client base.

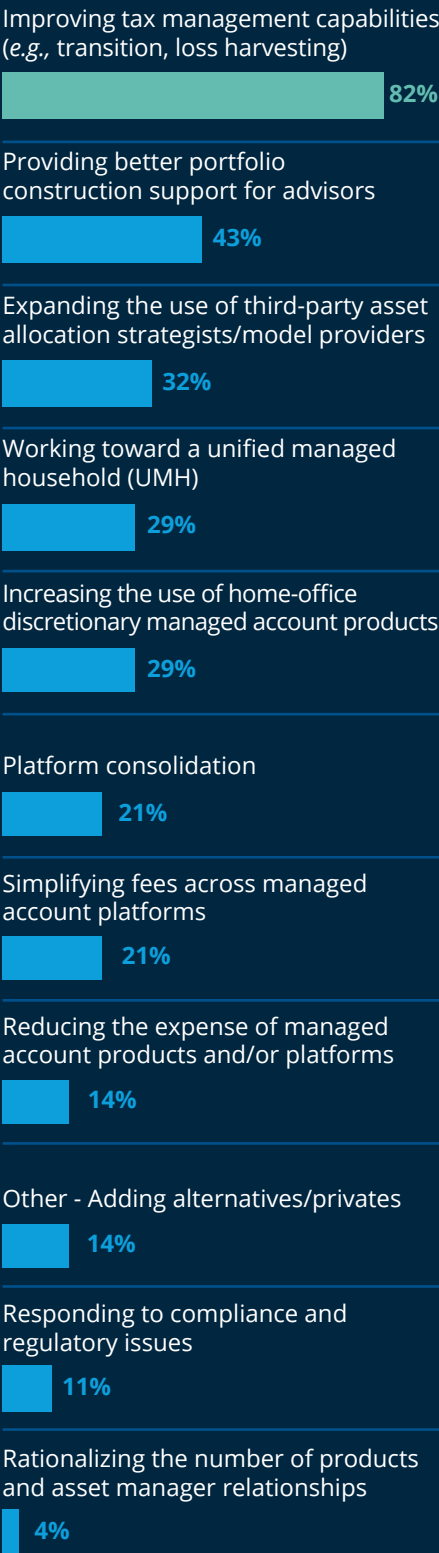
A Planned Foundation

The initial step of any wealth management engagement is the identification of a client's ultimate lifetime goals and how their

investments can support their attainment of these goals. This is something of an evolution for the wealth management community as many advisors formerly focused their efforts on simply maximizing the gross returns of their clients' portfolios over time, at a desired risk level, without much emphasis on the personal goals and preferences of each client household. Factors such as targeted retirement date and lifestyle as well as outside assets and other retirement income sources vary greatly across households but have been regularly overlooked in the past. All these elements can combine to create an intricate multivariate equation well beyond the capabilities of all but the most experienced optimization solutions. Moving forward, helping advisors account for all these factors and address them within clients' financial plans and investment portfolios will increasingly be considered as a baseline for platform capabilities, hindering the advisor and client acquisition efforts of lagging providers.

The financial planning process will result in the identification of one or more goals and an advisor creating a target portfolio with consideration of all of a client's preferences and financial resources. Ultimately, these portfolio recommendations will address both the Process Solutions and Product Solutions employed in the pursuit of each client's unique outcome goals. Implemented together, these Process and Product Solutions combine to create portfolio strategies optimized at the household level designed to provide the greatest possible net benefits to clients and their successors.

Exhibit 5 | Platform Sponsors: Platform Development Priorities, 2025



Source: Cerulli Associates | Analyst Note: Sponsors were asked, "What are the top-three priorities for your managed account business in 2025?"



Process Solutions

Exhibit 6A: Process Solutions Benchmarking, 2025

Portfolio Onboarding Transformation		
Incoming Portfolio Assessment	Asset Location Optimization	Tax Budgeting
Description		
Examine current holdings to plan the most efficient transition to newly recommended portfolio	Distribute asset allocation sleeves across household accounts to match assets with the most advantageous tax treatment available (e.g., capital gains on long-term equity positions)	Allowing client discretion on annual gain management to spread tax impact over time, or to gather potential offsetting losses (multi-year budgeting, etc.)
Implementation Status		
Common, but capabilities are frequently limited by platform's sophistication level or limited capacity of manual process	Limited deployment with many platforms defaulting to a single account management structure due to complexity or supervision concerns	Rare instances of automated multi-year budgeting processes in place; firms are commonly struggling with implementation
Frequency of Use Relative to Other Process Solutions		
— Medium	↓ Low	— Medium

Source: Cerulli Associates

Portfolio Onboarding Transformation

As a new client's current asset holdings and allocations rarely match an advisor's recommended portfolio, the onboarding and ensuing transformation of the portfolio is a crucial element in setting expectations for the client experience. To provide optimal long-term benefits, the formulation of a comprehensive portfolio transition process must consider numerous factors. Implementing a portfolio that addresses annual tax liability budgeting, concentrated position risks, and allocating investments at the household, rather than account, level is an extremely complex exercise that exceeds the current capabilities of most wealth management platforms but is vital to truly optimizing clients' net financial benefits.

1 | Incoming Portfolio Assessment:

As the first step in any onboarding transformation, wealth managers must thoroughly compare the client household's current holdings with the firm and/or practice's recommended portfolio to assess the overall scenario and identify opportunities to reduce the tax impact of the transition. At the base level, this process may find that a current ETF or mutual fund holding with significant embedded gains may not exactly match a recommended position, but that it is similar enough that a small adjustment to the recommendation could yield a portfolio with the same characteristics once the current appreciated holding is considered locked in. This step in the process should also include consideration of any concentrated position holdings or other client-specific factors, including held-away assets or expected inflows that could substantially impact the client's overall financial position.

“Transition analysis is essential. I wouldn't even consider a platform without it. They'll let you know what the tax consequence is going to be in scenarios A, B, or C when transitioning a portfolio, a position, or several positions over to the new strategy. It's essential, a non-negotiable.”

— Wirehouse Financial Advisor

2 | *Asset Location*: As the federal tax code affords differential treatment of income from a variety of sources, an optimal household-level portfolio allocation should be implemented across all of the client's accounts to enjoy the full benefits offered to them. For example, a household at the top marginal tax rate of 37% would pay that rate on ordinary income, including bond dividends and tax-deferred retirement plan distributions, while only facing a 20% capital gains rate on securities held for more than a year in a taxable account. This differential results in a relative benefit to holding growth-

focused investments (equities) in taxable accounts, while fixed-income positions benefit from the deferral of taxation on dividends in an individual retirement account (IRA). Overall, this will generally result in a benefit when clients' taxable accounts are tilted toward equities and municipal bonds, with a preference for other fixed-income investments in tax-deferred accounts. This outcome can present a significant point of resistance for wealth management firms that have not updated their oversight systems to consider allocations at the household, rather than account, level.

3 | Tax Budgeting: The final step in constructing an initial portfolio onboarding transformation strategy is determining the client's preferred timeline for execution. Any portfolio transition is likely to create some current taxation as appreciated securities are replaced, but many clients would prefer that this impact is felt over time to allow for dispersion of tax liability and the potential generation of offsetting capital losses. Based on expressed client preferences, wealth

managers often need to prioritize their recommendations with an order of operations that provides maximum short-term improvement with minimal tracking error, bound by the limitation of clients' annual tax budgets.

“ You need to know where the client is at. Option one is minimum tax, so we can set a tax budget. Option two is a larger tax box. Option three is the recommended portfolio. Ultimately, I'm giving the client the option of whether they want to pay a little bit more tax now to get themselves from a 100% equity position to more of a 70%/30% position that's defensive because they are 67. Or is it that they have enough money, and they don't need it? [In that instance], there's no reason to take any additional tax because the basis will step up to their children. Those things become part of the conversation.”




- Hybrid RIA

Active Tax Management (Overlays)

Once the client's portfolio has been onboarded to the investing platform, efforts turn to ongoing portfolio maintenance through a variety of tools and strategies that can minimize the impact of current taxation within targeted portfolio drift guidelines.

Tax-Loss Management: While not a recent innovation, tax-loss management processes are continually becoming more sophisticated and effective. Just a few years ago, many advisors would review portfolios in December and manually sell underwater positions to generate losses for clients. Of course, this scenario is far from thorough or scalable. More recently, several investment platform providers have instituted ongoing monitoring processes that allow for much more timely trade execution throughout the year to capitalize on short-term volatility declines that could be erased well before a year-end harvest process. By automating this process, next-generation providers are able

Exhibit 6B: Process Solutions Benchmarking, 2025

Active Tax Management (Overlays)		
Tax-Loss Management	Multi-Account Rebalancing	Tax Savings Reporting
Description		
Adding share lot tracking automation to recognize losses on a scheduled or triggered basis; also potential options to postpone liquidations when beneficial to clients	Rebalancing accounts across the household's account types in line with the Asset Location Optimization strategy	Documentation of expected tax impact of transactions to provide recurring reminders of advisory service value
Implementation Status		
Simple loss harvesting capabilities are ubiquitous, but more automated and sophisticated processes are continuously being upgraded to improve potential client benefits.	Very limited automation deployment; engineering frequently exceeds proprietary capabilities	Established practice with limited deployment; calculations are relatively straightforward; still some compliance concerns
Frequency of Use Relative to Other Process Solutions		
 High	 Low	 Medium

Source: Cerulli Associates

to track individual lots on an ongoing basis to identify opportunities and act immediately when warranted. This increased flexibility allows providers to better align with client preferences on both the aggressiveness of their strategy and the tracking errors they are willing to take on as a result. This also creates scale and efficiency for the advisor by removing manual elements they may currently deploy.

Beyond identifying additional opportunities, enhanced tax-loss management systems can offer incremental benefits in more nuanced aspects of tax-loss harvesting. For example, avoiding wash sales is relatively straightforward from a single-account perspective but can be overwhelming when considered on a household basis without the assistance of an overlay system dedicated to the issue. Likewise, the decision process determining what security is the most appropriate portfolio

replacement for a harvested position has become more refined as platforms consider the portfolio-level impact of each trade, which may yield a different optimal replacement for the same security depending on the particular client's overall circumstances. In some cases, this may even mean holding an outsized position of an appreciated security during a rebalancing event until the transaction would qualify as a long-term gain.

Multi-Account Management: After having implemented a household's accounts for optimal tax treatment, multi-account management is the ongoing management phase of asset location optimization. When taking a household-level approach to investment oversight, wealth managers will need to be able to make adjustments in each underlying account in order to maintain the overall portfolio's characteristics within the frameworks of tax minimization

and portfolio drift. In many cases, these adjustments can be made with upcoming cash flows. For example, disappointing market performance could result in an underweight equity exposure that could be rectified by directing future dividend payments or new investments toward the household's equity exposures, thereby reducing or eliminating the need for redemptions to rebalance the overall portfolio.

Tax Savings Reporting: One of the primary challenges for advisors is conveying the value of their services to their clients, as there are few objective measures available to them. Historically, they have used investment performance as a measurable metric, but as their value proposition has shifted toward financial planning, the absence of a tangible metric has been a challenge. The reporting of the impact of comprehensive tax optimization creates a substantial opportunity in this respect. At the most basic level, every tax-loss harvesting transaction could be accompanied by a communication indicating the expected value of the client's tax savings as a result of the transaction, based on the information available to the wealth manager. Alternatively, an analysis during the household's onboarding could detail the expected tax benefits of the full investment lifecycle versus a scenario in which the proposed transformation was not implemented. In any case, these statements assist in regularly reinforcing the value of the advisor and platform in clear terms for clients.

“




In the past, there were a couple of options. Now, it's do you want no net tax bill? Do you want a target for a certain amount of losses? You could set the harvesting schedule if you want it to be just monthly, or quarterly, or as needed. There are so many different customization options there.”

– Wirehouse Financial Advisor



“ That tax savings report got a lot of people's attention. Since then, enrollments have doubled. I think people say, wow, it's working. And now they can actually quantify and explain to other clients what this could mean for them because in most cases, as you probably know, it more than offsets the entire fee on the account.”

– Wirehouse Home-Office Executive

Distribution Optimization		
Tax-Smart Withdrawals	Social Security Strategy Selection	Wealth Transfer
Description		
Maximizing the net lifetime household benefit from the portfolio through distribution sourcing, order, and timing	A dedicated tool for helping clients select and implement a Social Security claiming strategy that they believe best aligns with their long-term goals	Estate planning guidance is often included in comprehensive financial plans, but best practices not consistently implemented in client portfolio management
Implementation Status		
Increasing as firms move toward focus on retirement income expertise; multiple levels of analysis sophistication available, often exceeding proprietary platform expertise	Limited interest in development from providers, but a ubiquitous need exists among clients; frequently used standalone tool for advisors when available	Beyond the scope of service for most providers, but a potentially strong demonstration of value to inheritors, there is some potential for integrating general best practices into portfolio management rules as applicable
Frequency of Use Relative to Other Process Solutions		
 Medium	 Low	 Low

Distribution Optimization

Once a household enters the portfolio distribution phase, wealth managers will encounter a new challenge in creating sustainable income streams that maximize net portfolio proceeds to clients and their beneficiaries, given client preferences. With dozens of variables in consideration in this process, implementing an optimized retirement income plan is well beyond the capabilities of most advisors.

Tax-Smart Withdrawals: Implementing a tax-aware retirement income plan often serves as the capstone of a client's advisory wealth management engagement. Clients may perceive that they have accumulated sufficient assets to sustain themselves through their expected retirement, and that all they need to do is enjoy the benefits of their commitment to saving. However, the reality is that designing and implementing optimal retirement income plans is one of the most complicated aspects of an advisory engagement. Accumulation portfolios include their own degrees of unpredictability regarding market returns and exigent factors. Retirement income planning

retains these challenges but adds layers of complexity when considering the interaction of multiple tax code provisions along with the ultimate uncertainty of the required duration of clients' income distributions. Beyond the core objective elements of these calculations, client choice also plays a key role in income strategy design, from preferred spending patterns to potential preferences for guaranteed income options. Every decision from the order of sources to tap for withdrawals to the timing of liquidation for each lot of shares can have an unforeseen impact on the overall distribution strategy. With such a wide variety of considerations, it is imperative that wealth management platforms provide their client-facing advisors a path of least resistance, with technology solutions that can help them navigate their clients through the process.

Social Security Strategy Selection: With thousands of possible combinations of timings and benefit formulas, choosing Social Security claiming strategies can be one of the most confusing elements of the retirement income process for clients. For many, there is a reflexive desire to begin receiving their benefits as early as possible—for some, at age

62. However, as future monthly benefits increase with deferral of claiming through age 70—and these benefits being taxable given income from other sources—it may be worthwhile for clients to defer claiming, potentially even until after they have depleted tax-deferred retirement accounts. Again, the complexity of the framework and analysis of these decisions generally exceeds the expected capabilities of financial advisors but are well within the realm of reasonable expectations for clients, who have engaged with a firm offering “comprehensive wealth management.”

Wealth Transfer: A wealth manager's final acts of service for a client household frequently involve the transfer of inherited assets to the next generation. Here again, we find a significant opportunity for active portfolio customization. For example, platform providers may want to defer *in vivo* redemptions of low-basis positions to benefit from a step-up in basis to the value at the original owner's passing. Likewise, long-term distribution strategies for beneficiaries of tax-qualified retirement accounts can substantially impact the cumulative net payments they are able to receive.



Product Solutions

To assist advisors in optimizing the impact of these process solutions, platform providers must be able to curate and recommend a variety of products best suited to each use case. For analysis and comparison purposes, product solutions can be separated into two main categories: customizable investment solutions offered via separately managed accounts and tax-favored pooled vehicles.

Customizable Investment Solution Capabilities

These strategies can be open architecture, but are often closed architecture, where an asset manager is delivering into a broader managed account portfolio that may or may not have overlay capabilities. The asset manager is then conducting

customizations, most frequently tax-loss management, within the individual sleeve. Depending on the level of integration with the overlay manager, if there is one, this customization can be informed by their data to prevent wash sales, and other unintended outcomes.

Exhibit 7 Retail Wealth Management Customized Investment Solutions, 2025	Frequency of Use Relative to Other Customized Investment Solutions ↓
Direct Indexing SMA: An investment strategy that is designed to track an index (e.g., S&P 500), but also intended to be customized for individuals for tax purposes or based on client preferences. Direct index portfolios do not have—as their primary investment objective—investment alpha relative to the index they are tracking. Their primary objective, while remaining within the boundaries/guidelines set by client preferences, is beta exposure, while minimizing tracking error. These strategies can also be used to express clients' preferences, including ESG factors or other screens, and as a tool to unwind concentrated positions.	High
Custom Bond SMA: A fixed-income investment strategy that is designed to track predetermined portfolio characteristics (e.g., credit quality, duration, yield). There may be some active decision making that goes into which bonds are selected.	High
Tax-Optimized Active SMAs: Fundamental bottom-up or quantitative active SMA strategies where a the portfolio manager is not tracking an index and instead aims to beat a benchmark. An overlay manager (affiliated or unaffiliated with the asset manager) executes tax-loss harvesting, and potentially other customizations, while seeking to minimize deviation from the the portfolio manager's strategy.	Medium
Tax-Managed Equity Long/Short SMA: An investment strategy that could be actively managed or designed to track an index (e.g., S&P 500 130/30 Quality Index), with an objective of leveraging long and short positions to enable greater tax-loss harvesting potential than a long-only direct indexing SMA.	Low
Multi-Style SMAs (e.g., multi-asset class): A combination of asset class or sub-asset-class exposures, potentially using different management styles (e.g., active, index) within a single SMA. Examples of this include direct indexing strategies that blend multiple indices within a single SMA, or a direct indexing equity strategy paired with a bond ladder in a single SMA.	Low
Options Strategies (e.g., covered call, collars): Options strategies that can be implemented around a concentrated position to generate income, mitigate risk, and potentially generate losses.	Low

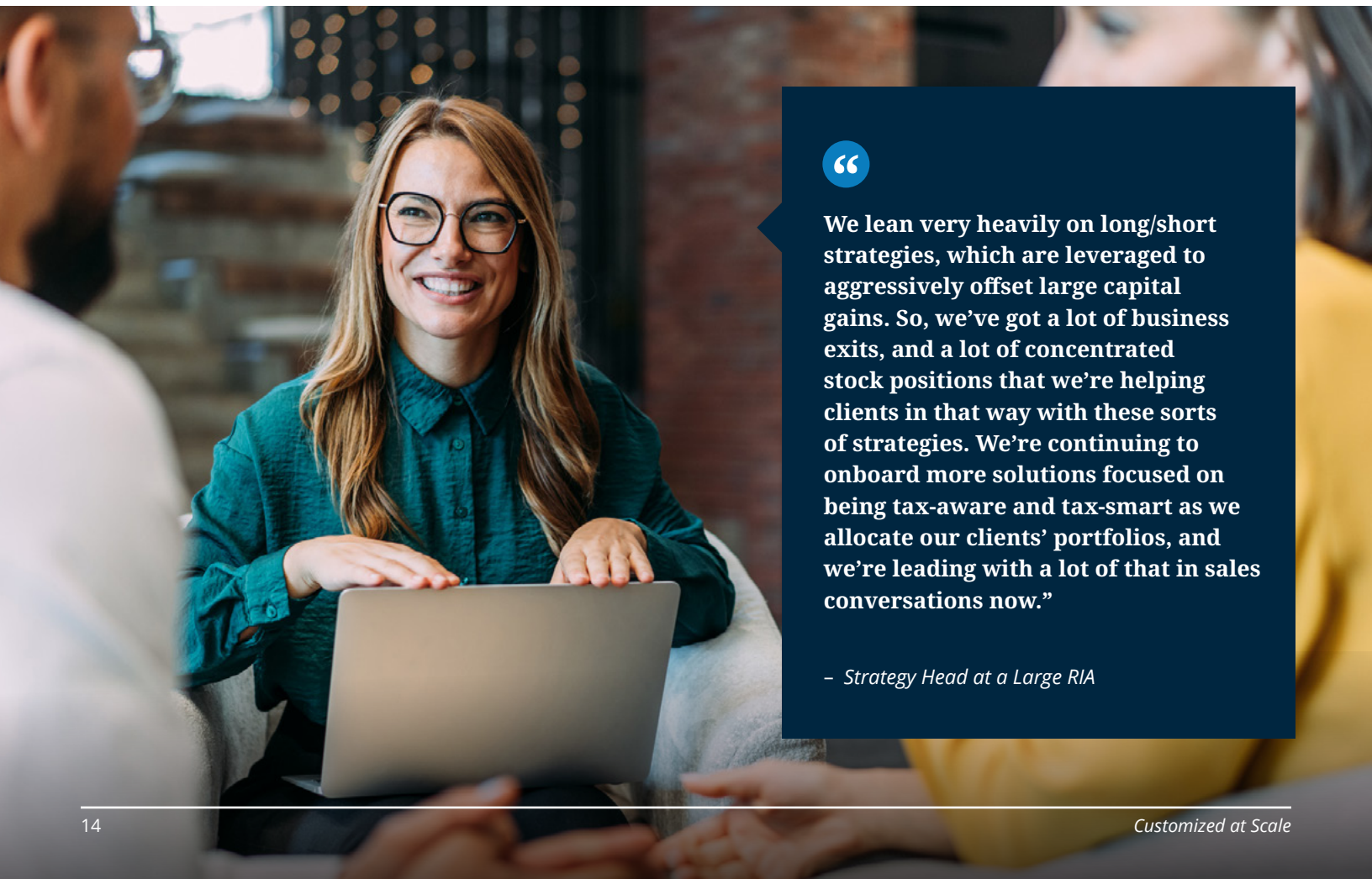
Source: Cerulli Associates | Analyst Note: This exhibit represents the most common customized investment solutions used by wealth management firms, based on research interviews Cerulli conducted with home-office executives and financial advisors.

Financial advisors most commonly use direct indexing and custom bond separately managed accounts (SMAs), which are now widely available on most platforms. Despite that, wealth manager home-office executives indicate they are still interested in adding new exposures, whether it be equity indices beyond large-cap core (e.g., small-cap equity, international equity) or different bond exposures. Furthermore, there is a growing drumbeat to apply the technology powering customization (e.g., tax optimization) of direct indexing as an overlay on top of actively managed strategies. While this may not be appropriate for every actively managed SMA (e.g., concentrated, high-conviction strategies), there is demand for potential tax savings while minimizing divergence from the active manager's investment strategy. For managers without tax optimization capabilities, direct indexing providers represent attractive partnership opportunities.

More advanced strategies, such as tax-managed equity long/short SMAs and options overlays, are niche, but they are emerging as valuable tools for advisors to use. In the case of tax-managed equity long/short, there is a high level of interest in the relatively larger potential loss generation that could be provided beyond that produced by tax-loss harvesting within direct indexing portfolios. Research participants acknowledge the cost, complexity, and potential risks of these strategies mean they are most likely suited for HNW investors in more unique situations. Similarly, options strategies (e.g., covered calls, protective puts, collars) are a tool several advisors report using or considering using for concentrated positions, but these use cases would typically be reserved for their HNW clients. These strategies appear to be more available on the RIA side, with several B/D home-office executives reporting they have not made them available to their advisors yet.

“ I look at direct indexing as an ideal path because of the lower cost. Why introduce complexity [of a tax-managed equity long/short strategy] if you don't need to? But when people have maybe a more aggressive concentrated position in terms of the gain as well as a portion of their portfolio, introducing leverage through tax-managed equity long/short can make a lot of sense for somebody, especially when we're looking at, say an ultra-high-net-worth individual that has a large liquidity event coming up.”

– Head of Investment Education
at a large RIA



“

We lean very heavily on long/short strategies, which are leveraged to aggressively offset large capital gains. So, we've got a lot of business exits, and a lot of concentrated stock positions that we're helping clients in that way with these sorts of strategies. We're continuing to onboard more solutions focused on being tax-aware and tax-smart as we allocate our clients' portfolios, and we're leading with a lot of that in sales conversations now.”

– Strategy Head at a Large RIA

“If you’re the type of client who never wants to sell it because you have an emotional connection to this stock, then we’re going to put you in a [manager name] or options overlay strategy where you’re going to keep it, but we’re going to create some income around it and we’re going to manage around it.”

– Strategy Head at a large RIA



Tax-Favored Vehicles

These are investment strategies delivered via pooled vehicles and can also be an integral part of client portfolios. While these solutions do not offer the customization options of SMA-based strategies, they can serve as useful complements in many scenarios.

Exhibit 8 Common Tax-Favored Vehicles, 2025	Frequency of Use Relative to Other Customized Investment Solutions ↓
Exchange-Traded Funds: Flexible pooled investment vehicles, which generally offer deferral of capital gains on underlying positions until ETF position is liquidated. Often a good investment option within tax-deferred retirement account options, wherein direct ownership of individual securities does not offer the tax planning benefits available in taxable accounts.	High
Exchange Funds: Private investment partnerships, wherein accredited investors contribute highly appreciated securities in return for pro rata ownership of the resulting diversified portfolio. At least 20% of LP must be invested in qualifying illiquid assets and be held by donors for at least seven years to provide deferred tax treatment. After seven years, partnership shares can be redeemed for the contributed shares or a diversified basket of securities.	Low
Section 351 Exchange Funds: This recently invigorated strategy allows clients to contribute highly appreciated shares of individual securities in exchange for pro rata ownership of a newly created diversified ETF. Capital gains tied to the cost basis of the original security are payable upon redemption of the ETF. This strategy seems poised for growth as managers gain experience and create processes to reduce initial administrative burden.	Low
Donor-Advised Funds: Funds created to offer donors immediate tax deduction with contributions of cash or securities. Donations grow tax-free until the donor selects qualified charitable grant recipient organizations at a later date.	Low

Source: Cerulli Associates | Analyst Note: This is not meant to be an exclusive list, but rather common examples based on feedback from financial advisors.

SECTION 3

Pursuing Leading Capabilities: Key Considerations for Wealth Managers and Financial Advisors

As discussed in Section 2, the alignment of a suite of process- and product-based solutions provides advisors with the ability to offer their clients comprehensive and customizable investment tax management outcomes that are increasingly expected. Unlike other advanced planning services, such as estate planning or tax preparation services, tax management through the processes and products presented in Section 2 represents one of wealth managers' most effective ways of providing tangible value by delivering tax savings far in excess of their cost to clients. Furthermore, customized tax management capabilities do not threaten operating margins to the same degree as these other more cumbersome and specialized professional services (e.g., estate planning, tax preparation).

The benefits are clear, but the requirements for engineering and implementing a complete set of solutions that are easy for advisors to adopt are vast. It includes optimizing the entire chain of operations needed to support a client's lifetime investing needs, from initial onboarding all the way through to generational wealth transfer—ideally with a seamless experience for the advisor. The fact that few firms have made significant progress in accomplishing this is evidence of how formidable an undertaking this is. Those farthest along appear to be the largest broker/dealers (e.g., Morgan Stanley) that fit into the 'Enterprise Scale' persona outlined in Exhibit 9. Despite that, firms of all sizes and capabilities acknowledge there remains plenty of work to be done in developing a comprehensive platform that includes all of the process and product solutions that enable scalable customization via investment tax management. Most firms are finding

that path to be long and winding, and many are in need of assistance navigating it.

Enterprise Scale

For the largest firms of 'Enterprise Scale'—with managed assets exceeding \$1 trillion—various aspects of a comprehensive solution have already been developed internally or acquired and merged into existing platforms. Whether through proprietary means or thoroughly integrated solutions, large platforms commonly field basic tax-loss harvesting capabilities. They are increasingly complementing those activities with process solutions (e.g., tax savings reporting, tax budgeting, and tax-smart withdrawals). These platforms also often provide overlay awareness and attempt to unify clients' accounts with varying degrees of success and sophistication. Several even have access to proprietary product solutions thanks to internal or affiliated asset managers.

“Our internal overlay manager has a really strong tax management strategy. It includes tax-loss harvesting, tax swaps, wash sale avoidance. In addition, we're piloting a transition analysis service now.”

– Broker/Dealer Product Manager

However, even the largest firms' offerings are a work in progress and there continues to be gaps when it comes to more niche products (e.g., tax-managed equity long/short strategies, 351 exchanges), leaving opportunities to work with third parties for solutions that are not easy to build or are not expected to be widely adopted across a firm's client base. Many of these firms' platform capabilities currently available represent some of the most comprehensive offerings that allow

advisors to manage and customize tax-aware portfolio solutions for clients at scale. However, they still remain short of the ideal set of process and product solutions outlined in Section 2.

Emerging Enterprise

There is a large segment of the market that is not in the top several wealth management platforms, but that still operate as 'Emerging Enterprises' with platforms, operations, and solutions under their own roof and hundreds of billions in client assets under management. These firms are using and aligning a multitude of process and product solutions provided by third parties that are integral to providing a competitive solution set to advisors and clients. As consolidation leads more firms to grow into this category, asset managers and third-party technology providers have been innovating beyond 'traditional' services and products to deliver solutions that help wealth managers solve a broader range of investing problems (e.g., tax burdens or concentrated positions) with greater efficiency and customization.

“I think for the vast majority of [Emerging Enterprise wealth managers], to be able to leverage an asset manager or a handful of asset managers to sit across your investment advisory platform as true experts in support of a service is the way to go. Otherwise, you can never implement a unified managed household.”

– Director of Strategy, Asset Manager

These solutions can either be integrated into back-end operations or white-labeled, but most critically must align smoothly with other offerings of the firm, often requiring substantial client

service capabilities from those third-party providers. However, proper implementation is a two-way street and requires extensive preparation and development from firms' home offices to set the foundation upon which outside solutions can rest and work. Notably, this includes potential data sharing (e.g., tax lot information) that can help their partners provide better customization. As much as these build vs. buy vs. partner decisions are unique for each firm, they are similarly nuanced for each solution, and though firms are consistently trying to bring more basic solutions in-house as they scale, the "building" slope for the

particular solutions mentioned in this paper is an extremely steep climb.

Leaders of firms in this segment tell Cerulli that it is often enough work, and strategically of greater importance, to focus on building the platform upon which products and solutions can be stacked rather than building out competitive proprietary solutions. They would prefer to manage all process solutions (e.g., tax budgeting, tax-loss management, tax-smart withdrawals) internally but may also seek to leverage an asset manager or technology provider for some. Focusing more on the platform keeps wealth managers closer

to their clients and advisors and allows for the adoption of best-in-breed solutions provided by the market.

“Just being thoughtful around what your capabilities are in-house versus what asset managers can do, and how you can match those two. It's also about what you have in-house to give a scaled plain vanilla solution versus what you can get with a white-glove, customized partnership. I think each one's very much an individual review of what your capabilities are and maybe where you fall short.”

– Director at a Scaled RIA

Exhibit 9 | Wealth Manager Customization Capability Access Personas, 2025



Growth-Oriented Boutiques

Common Channels:

IBDs, RIAs, Bank Trusts

General Size (AUM):

Less than \$100 billion

Customization Capability Access:

Outsource, but may Partner and Integrate

Description:

- Not focused on building much, if anything, internally due to a lack of scale and resources, but need capabilities to compete
- More likely to outsource some or all of their technology stack to a TAMP, their custodian/clearing firm, or an asset manager (e.g., Parametric, BlackRock Aladdin)



Emerging Enterprise

Common Channels:

Wirehouses, National/Regional B/Ds, IBDs, Banks, Largest RIAs

General Size (AUM):

\$100 billion to \$1 trillion or more

Customization Capability Access:

Partner and Integrate

Description:

- Extensively rely on third parties, including technology providers (e.g., Charles River) or asset managers (e.g., Parametric) for processes and products that enable customization, specifically related to tax management
- Proper integration still requires extensive preparation and development from the home-office side to set the foundation upon



Enterprise Scale

Common Channels:

Wirehouses, Largest National and Regional B/Ds

General Size (AUM):

Greater than \$1 trillion

Customization Capability Access:

Build or Buy

Description:

- Firms with internal asset managers and/or acquired solutions for processes and products
- Likely still have a lingering need for more niche third-party product solutions (e.g., tax-managed equity long/short), but they are likely developing on their existing platform and then bolting on/integrating the acquired solutions
- Maintain control over the environment, which is costly, but they have the scale and resources to do so



Growth-Oriented Boutiques

While the wealth management industry continues to experience consolidation, there is a segment of broker/dealers and RIAs that have less than \$100 billion in assets but are focused on growing. To grow, they recognize they need to be able to provide their clients with a more customized experience, including investment tax management, but they lack the scale and resources of their larger peers. While some larger firms in this segment may be able to take an approach similar to emerging enterprises, others are looking to outsource some or all of their technology stack to a turnkey asset management platform (TAMP), their custodian/clearing firm, or an asset manager (e.g., BlackRock Aladdin, Parametric). Breadth of capabilities is a key point of interest for many wealth managers considering an outsourced partner. Through these firms, they can get access to process and product solutions, although they may still choose to identify additional asset manager partners to develop the correct product solution suite.

“When you’re looking at some of the smaller B/Ds who don’t have the full capabilities of the wirehouses, I think it’s interesting and appealing for them to really outsource a lot of [processes and products enabling customization]. We talk about buy, borrow, or lease. What direction do they want to go? You’re going to see a lot of them kind of doing the more borrowing or outsourcing at that size.”

– Managing Director, Platform Provider Firm

Like other advisor segments, these home-office executives and financial advisors are seeking an increasingly holistic platform offering robust process and product solutions. They also want to see capabilities related to tax savings reporting; they want to be able to take the tangible value and showcase that to their clients. Additionally, ease of use

is critical to positioning the platform in a manner that minimizes pain points and maximizes advisors’ adoption. This often includes user interface/user experience (UX/UI), flexibility (e.g., self-service transition reports or wholesaler-delivered reports), and ongoing client service from the provider.

Final Considerations: Avoiding Historical Pitfalls and Enabling Advisor Adoption

Over the last decade, wealth management providers have invested hundreds of millions of dollars and thousands of hours of labor into various platform development projects that languish virtually unused, or worse, have never even made it into production. This is especially true in the case of tax-focused enhancements, in which many providers have made significant efforts, sometimes over several years, only to be disappointed by their progress. In these cases, wealth managers frequently find that their internal capabilities simply do not match the specific capabilities and nuanced experience needed to significantly improve a platform’s tax optimization capabilities.

“We just need a lot more sophisticated operations. [Old provider] would continually do upgrades for us but it’s often kind of slapping a Band-Aid on a larger issue. We decided to upgrade and [New provider] has some nice UMA capabilities, but across the spectrum, it’s just going to improve operations.”

– Executive at an RIA

Additionally, those integrating process and product solutions from asset managers and third-party strategists need to ensure they find the right partners that provide the necessary specialized expertise. Being able to truly tie their technology into the day-to-day operations is critical to being able to deliver upon the customization and tax management potential they market. One research participant also points to

the fact that firms can outgrow their partners, so those going this route need to ensure they are monitoring their existing partners and the market to ensure they have the best possible capabilities for their current and future states.

“Whether you buy it or build it in-house, I would think of it as great to have that data in-house so you can control the more customized solution. But in some cases, maybe the third party is better because they’ve already built it out and maybe we use the internal capability for some of the more plain vanilla direct indexing accounts, but then let Parametric do the more customized solution because that’s more labor-intensive and they have the bodies that can support that.”

– Strategy Head at a Large RIA

Ultimately, crucial elements of the development of these process and product solutions is that the enhanced platforms offer a true path of least resistance to advisor adoption. In order to accomplish this, solutions must be intuitive to use, products must be integrated, and it all should ideally exist on a unified platform.

Furthermore, reporting, documentation, and other information must be readily available to help advisors and their clients understand the benefits to them.

Though it is important to work with third parties that provide leading solutions, it is arguably equally important for partners to have extensive experience in helping firms with these integrations and working with advisors on how to make the most of what is available to them.

CERULLI NOTABLE:
Solutions must be intuitive to use, products must be integrated, and it all should ideally exist on a unified platform.



Conclusion

Wealth managers need to provide a comprehensive set of process and product solutions that enable a customized experience that prioritizes tax management. It’s evident that investors are increasingly expecting a customized experience, and they care more about mitigating the impact of taxes. Parallel to that, financial advisors are seeking to differentiate by offering investment tax management capabilities, although this is becoming more commoditized among advisors serving HNW investors. To meet investor and financial advisor demand, wealth managers need to consider how they will access this set of solutions.

For the largest ‘Enterprise Scale’ wealth managers, this may mean upgrading internal platforms or buying best-in-class technology to access process and product solutions. However, most wealth managers in the ‘Emerging Enterprise’ or ‘Growth-Oriented Boutique’ segments need to consider how they will use partners to assemble the right set of solutions for their firms. While they may have some internal capabilities, they will need to integrate asset manager and technology provider process and product solutions. Getting this marriage of internal and external capabilities correct is crucial and will rely on not just quality technology capabilities, but also integration, ease of use, and client service elements.



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