

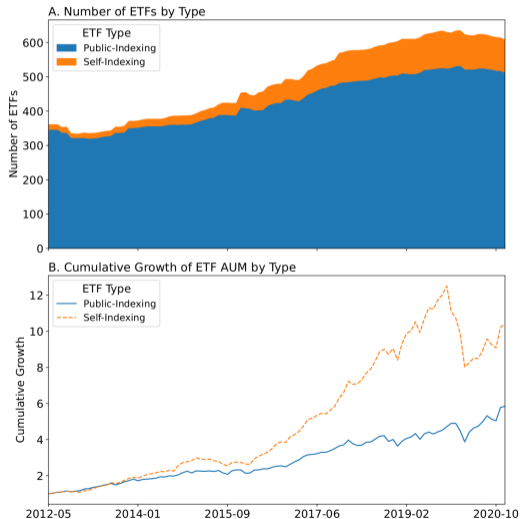
INDEX DISRUPTION
THE PROMISE AND PITFALLS OF SELF-INDEXED ETFs

Paul Huebner
Stockholm School of Economics

Discussion
FIRS 2026

SELF-INDEXED ETFs

- **Self-indexed ETF:** tracks an index created and maintained by the ETF issuer or an affiliate
- **Public-indexed ETF:** tracks an unaffiliated index provider, e.g. S&P Dow Jones, FTSE Russell, MSCI
- SEC's 2013 relaxation made self-indexing easier
- By 2020: 96 self-indexed ETFs; cumulative AUM growth roughly doubles public-indexed ETFs



WHY SELF-INDEX?

- **Cost channel:** avoid paying external index licensing fees
 - ▶ prediction: lower ETF fees if savings are passed through
- **Differentiation channel:** design a benchmark tailored to a product niche
 - ▶ prediction: less portfolio overlap and lower return correlations with style peers
- **Self-preferencing/search-cost channel:** proprietary benchmarks make comparison harder
 - ▶ index proliferation raises search costs: investors face more labels, methods, and yardsticks
 - ▶ issuer-advisors can promote own self-indexed ETFs through advisory accounts and model portfolios
 - ▶ prediction: higher fees for similar portfolios, especially where the issuer controls distribution

DATA AND SAMPLE

- Main sample: passive, unlevered U.S. equity ETFs, 2012–2020
 - ▶ 786 unique ETFs from ETF Global
 - ▶ ETF Global provides benchmark names, holdings, characteristics, and 26 style categories
- Self-indexing classification
 - ▶ ETF Global reports each ETF's primary benchmark
 - ▶ self-indexed if the benchmark is created by the issuer itself or an affiliate

EVIDENCE ON FEES

	(1)	(2)	(7)
	Net Expense Ratio (%)		
Self Indexer?	0.055*** (0.006)	0.052*** (0.008)	0.035*** (0.013)
Controls	No	Yes	Yes
Issuer FE	No	Yes	No
Month-style FE	Yes	Yes	Yes
Month-issuer FE	No	No	Yes
Observations	50,434	43,214	34,969
R^2	0.23	0.47	0.55

$$Expense_{f,t} = \beta SelfIndex_f + \Gamma X_{f,t} + \alpha_i + \delta_{s,t} + \varepsilon_{f,t}$$

- Punchline: no cost pass-through; self-indexed ETFs charge about **5.5 bps more** in the baseline

EVIDENCE ON DIFFERENTIATION

	Cosine Similarity		Return Correlation	
	(1)	(2)	(3)	(4)
Self Indexer?	0.019*** (0.002)	0.021*** (0.002)	0.015*** (0.004)	0.018*** (0.004)
Controls	Yes	Yes	Yes	Yes
Issuer FE	Yes	No	Yes	No
Month-style FE	Yes	Yes	Yes	Yes
Month-issuer FE	No	Yes	No	Yes
Observations	29,902	29,902	41,887	41,887
R^2	0.76	0.78	0.83	0.86

- Cosine similarity is computed from portfolio holdings, comparing each ETF to peers in the same ETF Global style category
- Punchline: self-indexed ETFs are **more similar**, not more differentiated

EVIDENCE FROM ISSUER SPECIALIZATION

	Fees (1)	Returns (2)	Similarity (3)	Flows (4)
Self Indexer?	0.002 (0.013)	0.136 (0.086)	-0.020*** (0.002)	0.011** (0.005)
InvAdvisor?	-0.320*** (0.011)	-0.006 (0.042)	0.015*** (0.002)	0.005** (0.002)
Self × Advisor	0.090*** (0.016)	-0.120 (0.093)	0.013*** (0.003)	-0.019*** (0.006)
Month-style FE	Yes	Yes	Yes	Yes
Observations	43,214	43,074	29,902	35,955

- Unconditional results hide two types of self-indexing:
 - ▶ specialized fund managers: no fee difference, more differentiation, and more flows
 - ▶ investment advisors: higher fees, not meaningfully more differentiation or inflows

EVIDENCE ON SELF-PREFERENCING

A. Self-ownership

	(1)	(2)
Self Indexer?	0.108*** (0.016)	0.035** (0.015)
Self Indexer? \times InvAdvisor?		0.095*** (0.030)

B. Affiliated model portfolios

	(3)	(4)
Self Indexer?	1.171** (0.513)	-1.190*** (0.164)
Self Indexer? \times InvAdvisor?		1.351*** (0.258)

Outcome: number of issuer/affiliate-run model portfolios that include the ETF

- Self-indexed ETFs have higher same-family 13F ownership, mostly for issuer-advisors
 - ▶ e.g., JPMorgan issues a self-indexed ETF, advises clients to hold it; discretionary client holdings appear in JPMorgan's 13F
- Model portfolios are recommended portfolios for advisors
- Panel B: self-indexed ETFs appear in more issuer/affiliate-run models; for issuer-advisors, more often than their own public-indexed ETFs

RECAP: WHICH HYPOTHESIS SURVIVES?

- **Cost hypothesis:** not supported
 - ▶ no pass-through; self-indexed ETFs charge higher fees in the baseline
- **Differentiation hypothesis:** partly supported
 - ▶ specialized fund managers look more differentiated; issuer-advisors do not
- **Self-preferencing hypothesis:** supported for issuer-advisors
 - ▶ higher fees for similar funds, plus affiliated 13F ownership and model inclusion

COMMENT 1: MAYBE IT IS ABOUT LOOKING BETTER

- Another reason to self-index: choose the benchmark against which performance is judged
 - ▶ not CAPM/FF alpha; maybe “alpha” relative to the self-chosen benchmark
- Related literature says this margin is real
 - ▶ Cohen, Kim, and So: funds move across Morningstar style boxes to get better ratings
 - ▶ Dannhauser, Dathan, Young, and Zhu: bond funds look better when the comparison set is easier
- Natural addition: compare performance relative to public benchmark substitutes versus the self-indexed benchmark
 - ▶ if the self-indexed yardstick flatters the ETF, this is the missing mechanism

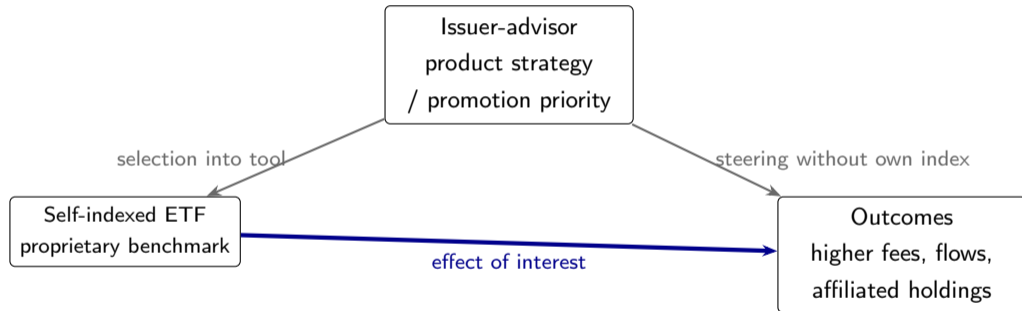
Cohen, Kim, and So, *Box Jumping* (2024, rev. 2026); Dannhauser, Dathan, Young, and Zhu (2025).

COMMENT 2: WHY IS THIS IMPORTANT?

- The paper emphasizes that self-indexed ETFs grow faster
- But the current dollar stakes look small
 - ▶ Table 2: mean $\log(AUM)$ for self-indexed ETFs is 18.2 \Rightarrow about \$80 million
 - ▶ Figure 1: about 100 self-indexed ETFs by 2020 \Rightarrow about \$8 billion
 - ▶ 5 bps higher fees on \$8 billion \Rightarrow about \$4 million per year

COMMENT 3: IS SELF-INDEXING THE TREATMENT?

- Affiliated advisors may steer clients into own high-fee products
- But self-indexing may be one **channel**, not the primitive conflict



- Central concern: estimates may mix the blue arrow with *SelfIndex* ← *Strategy* → *Outcomes*
 - ▶ counterfactual: what product would the advisor have promoted instead?
- Broader question: self-indexing itself, or conflicted distribution into own products?

COMMENT 4: STYLE IS STILL COARSE

- Comparisons are within ETF Global style categories
 - ▶ the paper notes 26 categories, e.g. “Large Cap”, “High Dividend Yield”, “Broad Equity”
- These may be too coarse for the relevant product market
- Natural dual-hypothesis problem:
 - ▶ are self-indexed ETFs not differentiated?
 - ▶ or are the style buckets too coarse to capture the investor’s perceived product space?

