

# Index Funds Most Vulnerable to Being Usurped by Smart Beta: Report

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By [Jackie Noblett](#) December 9, 2016

A larger number of advisors are using smart-beta ETFs as a substitute for index funds, in contrast to employing the products as a replacement for actively managed funds, according to a recent survey.

Twenty-three percent of the advisors that have bought a smart-beta ETF in the past year used it to replace a plain-vanilla index fund, while 19% swapped an actively managed fund for a smart-beta ETF. Eleven percent replaced an “alpha-seeking” investment with smart beta. Two thirds of smart-beta buyers used it to replace existing allocations, while a third bought smart-beta ETFs with new assets, according to [Brown Brothers Harriman](#)’s fourth annual [ETF Investor Survey](#). Participants included 175 U.S. financial advisors.

Of those advisors, 59% bought a smart-beta ETF in the past year, up from 57% in 2015. The majority of investors, 54%, have less than 5% of their portfolios in the alternatively weighted index products, but the number of advisors allocating more than 20% of client portfolios to smart beta rose to 18%, from 15% in 2015.

“Smart beta has become a middle option for investors seeking traditional passive and active strategies,” BBH says in its report. But the custodian argues that smart-beta assets will increasingly replace active investments used to supplement core portfolio holdings as advisors take advantage of the generally lower costs of smart-beta strategies.