Vanguard sued by direct-indexing founders for allegedly cajoling a deal for Just Invest where the payoff came from hitting targets that the fund giant, allegedly, impeded -- actively and passively

The Malvern, Pa., asset manager has yet to answer the claims, but the suit's acrimony could lead to a public relations black eye.

Author **Oisín Breen** July 16, 2025 at 9:43 PM

0 Comments

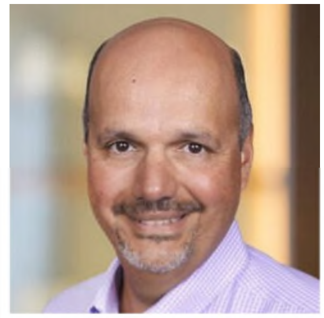
Ari Sonneberg: He who sells his horse for a promise, deserves to walk.

> ***Brooke's Note: The firm that embodies non-direct indexing, Vanguard, buys a promising young direct-indexing startup, Just Invest, and then fails on purpose, allegedly, to use the fledgling to cannibalize itself. Go figure! Yet this lawsuit says the founders of Just Invest are shocked, shocked by the outcome. Then again, maybe Vanguard did say and do things that deserve legal recourse. We don't know. But the unusual circumstances led Oisin to write this article that deeply examines what happened and it's plenty interesting.***

The Vanguard Group is getting sued for negligence, misrepresentation, and obstruction for allegedly suit.

The deal was based on performance payouts tied to Just Invest's annual recurring revenues, according to the suit. See: Vanguard Group buys Just Invest, after soaring pilot success.

Vanguard, then led by former CEO Tim Buckley, allegedly torpedoed a $900-million- managed-assets (AUM) deal.



Andrew Besheer: It doesn't feel like this was a catch and kill deal walking in.

Coupled with "past frictions" with a leading RIA services vendor – Just Invest's biggest customer, accounting for 65% of its business – Vanguard also allegedly wiped out a major revenue stream, according to the suit.

Yet, lawyers caution that *caveat venditor* – let the *seller* beware -- likely holds sway, and proving misrepresentation is notoriously tricky.

"As my sage law school contracts professor often said, 'He who sells his horse for a promise deserves to walk,'" says Ari Sonneberg, partner at Boston law firm the Wagner Law Group, in an email exchange.

"We need to see Vanguard's response before slamming down the gavel."

Black eye

Filed July 3, in the Court of Chancery of the State of Delaware, the suit, at the very least, shines a potentially unwelcome light on Vanguard's M&A chops.

Tim Buckley: Vanguard CEO at the time of the JustInvest deal.

The fact that a once-lauded acquisition is now the source of a public and legal spat is a surprise, says Will Trout, director of securities and investments at Boston consultancy Datos Insights.

"Vanguard is taking it on the chin from a PR perspective here … For matters to devolve into litigation is extremely unusual and an indication that the politics must have gotten really ugly internally," he explains.

These kinds of disputes are common in other industries that haven't appeared so much in financial technology, says Andrew Besheer, founder and principal of Albany, N.Y. consultancy, Besheer & Associates, via email.

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Potential fallout

Going forward, Vanguard could be forced to pay a premium up-front if it tries to buy another financial technology company. Just Invest -- Vanguard's first ever acquisition - is now “Exhibit A” of how it handles deals, analysts say.

Will Trout: The politics must have gotten really ugly.

“It probably shapes the deal terms a bit – more front-loaded, less back-loaded,” says Besheer.

Trout said he was “surprised by the acquisition back in 2021.”

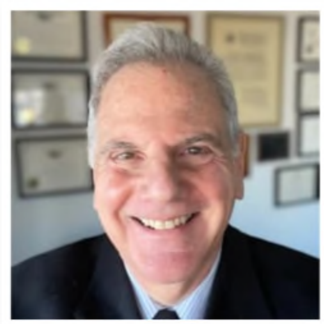
"Acquisitions are not really in character for Vanguard – but I am not surprised that it didn't pan out,” he says.

“It's a classic case of culture-eating strategy … The 'crew' does things in a certain way, and it was never clear how Vanguard would digest a technology-forward, Bay-area tech firm," he adds.

Smoke and fire

The suit raises more questions than it answers, but may still have a legal foundation, according to lawyers.

Veteran Wall Street attorney Bill Singer sees some merit in the allegations. "There may be fire beneath the smoke,” he says.



Bill Singer: 'Sales puffery' exists in all businesses.

“The negligent misrepresentation claim is well-suited to Delaware law, and the factual allegations suggest Vanguard had superior knowledge of risks it failed to disclose … Success will likely depend on discovery revealing internal communications,” he adds.

Such claims are, however, extremely hard to prove, says Sonneberg.

“Many of the allegations are rooted in representations Vanguard made … Were those representations made in writing? Were they in the four corners of the merger agreement?” Sonneberg asks.

“There could be no monetary payout ... [Just Invest] would have to prove what the monetary damages are, [which] is a tall order in this case ... based on unrealized potential. Just Invest essentially will have to demonstrate convincingly what could have been,” he adds.

"Just Invest would have to prove that Vanguard withheld information that it had a duty to disclose, that the information was not independently available to Just Invest and that had [it] been … it wouldn't have

Sales puffery

Promises are not legal obligations, Singer cautions.

“Parties to complex commercial transactions should do ample due diligence, not rely upon mere representations by counter-parties, and put on their big-boy pants when sitting down at the negotiating table,” he says.

"Vanguard will [also] argue that ‘sales puffery’ exists in all businesses and such representations about 'lines out the door' should never carry weight with any counter-party," he adds.

“My bet [is] this gets settled relatively quietly with some sort of non-disclosure around whatever Vanguard agrees to pay to make the plaintiffs go away – and that value is larger if this was a strategic shift [away from direct indexing], and smaller if it turns out that the technology sucked,” says Besheer.

Keeping a lid on public acrimony could certainly convince Vanguard to settle swiftly, Sonneberg agrees.

“It seems there is a fair amount of dirty laundry that could come out in discovery in this case, so if I were a betting man, I would put my money on this settling, with a tight NDA, before the real details of this case see the light of day.”

Double dealing?

"The Just Invest acquisition was a ‘strategic’ acquisition, meant to protect Vanguard’s legacy business lines against the potential threat of direct-indexing competitors ... [It was] an insurance policy, rather than a good-faith effort to generate new revenue,” the suit states.

Vanguard "engaged in both pre- and post-merger misconduct and made knowing and material misrepresentations or omissions in order to induce [JustInvest] and its security holders… then interfered with, and drastically reduced post-closing earn-out payments,” the suit continues.

Just Invest founders Jonathan Hudacko (CEO), Vijay Rao (chief investment officer), and Alan Cummings (chief technology officer)* also claim that Vanguard broke several pre-sale promises, most notably that it would convince its institutional and pension-fund clients on the merits of direct indexing.

its OCIO business to Mercer. See: Vanguard's rampant re-engineering binge now includes handing off $60-billion AUA unit.

Vanguard fired Hudacko, Rao and Cummings in July 2024, allegedly in "retaliation" for pushing back against delays to Just Invest launches and for complaining over a lack of support for its business.

Catch-and-kill?

Jeff DeMaso: Would we even notice anything different at Vanguard if it had never bought JustInvest?

Yet, Vanguard pursued Just Invest with an ardor starkly different to the acrimony displayed in the suit.

It first tried to buy Just Invest a year prior to the deal, and it acquired the firm after a successful pilot.

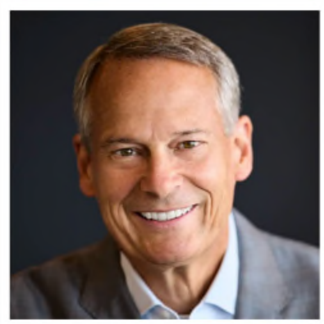
"It doesn't feel like this was a catch and kill deal walking in … This acquisition made 100% strategic sense in 2021. It probably still makes as much sense in 2025, [with] mass personalization at scale," says Besheer.

Just Invest "only had $1 billion of AUM, and was already a partner, so I certainly can't see why Vanguard would want to actually pay to put them on ice," Besheer continues.

"It feels like either a strategy shift post-acquisition, or Vanguard discovered that the technology wasn't scalable enough for their purposes," he adds.

"My gut tells me that there was something Vanguard discovered after the acquisition that caused them to decelerate this relationship quickly, and I wouldn't be surprised if we learn some of what it is when they file their responses."

Bigger offer



Walt Bettinger: [ETFs and mutual funds] are going to be challenged.

Vanguard also allegedly sweet-talked Just Invest's owners into turning down a bigger sale to a rival bidder – of which there were two. It supposedly told Just Invest that its best-case projections were too conservative, and that it could easily pull in $10 billion of net new assets in a year, according to the suit.

"There would be lines out of the door for Just Invest's services," one Vanguard executive allegedly stated at the time.

Indeed, the success of Vanguard's bid hinged on its "express representations" of heavy support, high growth, and the opportunity to cannibalize Vanguard's institutional funds, according to the suit.

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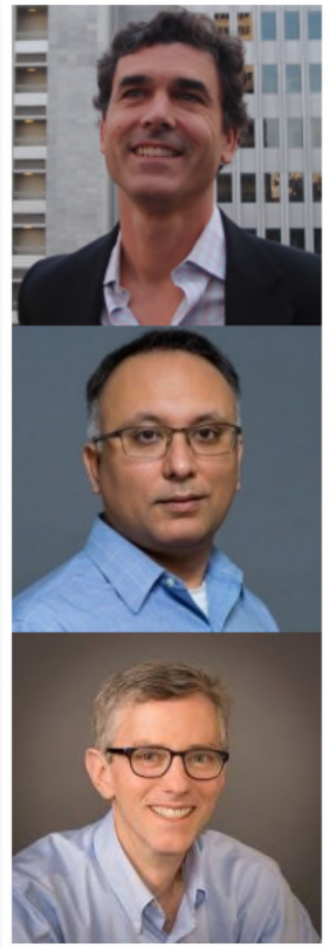
Chasing the hype

The change in rhetoric from today compared to 2021 is notable, too.



Just Invest founders, Jonathan Hudacko, Vijay Rao, Alan Cummings.

Vanguard bought Just Invest at the height of the direct-indexing hype cycle, just days after JPMorgan bought OpenInvest. See: J. P. Morgan buys OpenInvest, after missing out on Parametric, which Morgan Stanley nabbed.

Vanguard felt a need “to have the direct indexing arrow in their quiver … and there was a sense that direct-indexing would replace index mutual funds [and] ETFs,” says Jeff De Maso, editor of the Independent Vanguard Advisor, via email.

Even former Schwab CEO Walt Bettinger was seduced by the dream.

"The idea that I’m going to take my money and simply turn it over to some fund or ETF and just trust that manager or trust that index is going to invest the way I want ... I won’t go as far as to say those days are gone … but they’re going to be challenged," he told investors in 2021. See: Charles Schwab & Co. sets in motion monetization play for the ages.

Indeed, starting with Morgan Stanley's late 2020 capture of Parametric as part of its $7 billion Eaton Vance acquisition, major asset managers proved hellbent on owning their own direct-indexing shop. See: Morgan Stanley's Eaton Vance deal yields a golden nugget: Parametric.

Soon after, Schwab snapped up Motif, and BlackRock bought Aperio. Then, in 2021, Franklin Templeton bought O'Shaughnessy Asset Management and its Canvas software; Prudential hoovered up Green Harvest; and BNY Mellon acquired Optimal.

Fidelity, meanwhile, decided to build its own directing indexing software, and UBS also almost acquired its own capabilities, before it backed out of its deal to buy Wealthfront in late 2022. See: UBS backs out of Wealthfront deal, coughs up $69 million.

Failure to launch

Yet the hype has yet to translate into more than lukewarm success.

"Direct indexing was ‘hot,’ but has cooled … it only makes sense for investor[s] looking to manage a

It operates today as Vanguard Personalized Index Management, and is only available to advisors, but Vanguard in-house advisors don't use it.

It has captured just 0.8% of the domestic direct indexing market, with $7.2 billion under its management, according to SEC filings.

“It's been a failure,” says DeMaso.

"Would we even notice anything different at Vanguard if it had never bought JustInvest or added direct indexing capabilities? Probably not," he adds.

Only 18% of independent advisors use direct indexing today, and 26% of independent advisors publicly stated their lack of interest in using it, according to a recent study by Boston consultancy Cerulli Associates.

Of the total $16.9 trillion managed through domestic index-tracking funds, direct-indexing also accounts for just 5.1%, or $864.3 billion, the report states.

* *Hudacko, Rao, and Cummings were JustInvest's majority owners, at the time of sale. It raised $975,000 in an Apr. 25, 2019 seed funding round, according to Crunchbase data.*

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. @Breen

Brooke Southall and Keith Girard contributed to the editing of this article.

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