Active v Passive

The whole debate about whether it's best to invest in active or passive strategies has been a 'topical' one in South Africa for **at least** the last decade. As multi managers we engage with a wide range of asset managers, and we often hear active managers discussing passive and vice versa. While there are some managers that will vigorously defend their 'turf', we are increasingly seeing acknowledgement that both can play some role within a client's overall investment portfolio.

Active Investing

Active investing involves portfolio managers making strategic decisions to outperform the market. South Africa's equity market is relatively concentrated and inefficient, so good active managers can seize opportunities to capitalize on these inefficiencies. Global active investing is similarly dynamic, allowing fund managers to navigate diverse market conditions and respond to global trends.

Benefits of active investing include the potential for higher returns, as skilled fund managers actively seek out undervalued assets and adjust their portfolios accordingly. Additionally, active management provides flexibility to adapt to changing market dynamics, which can be especially advantageous during volatile periods.

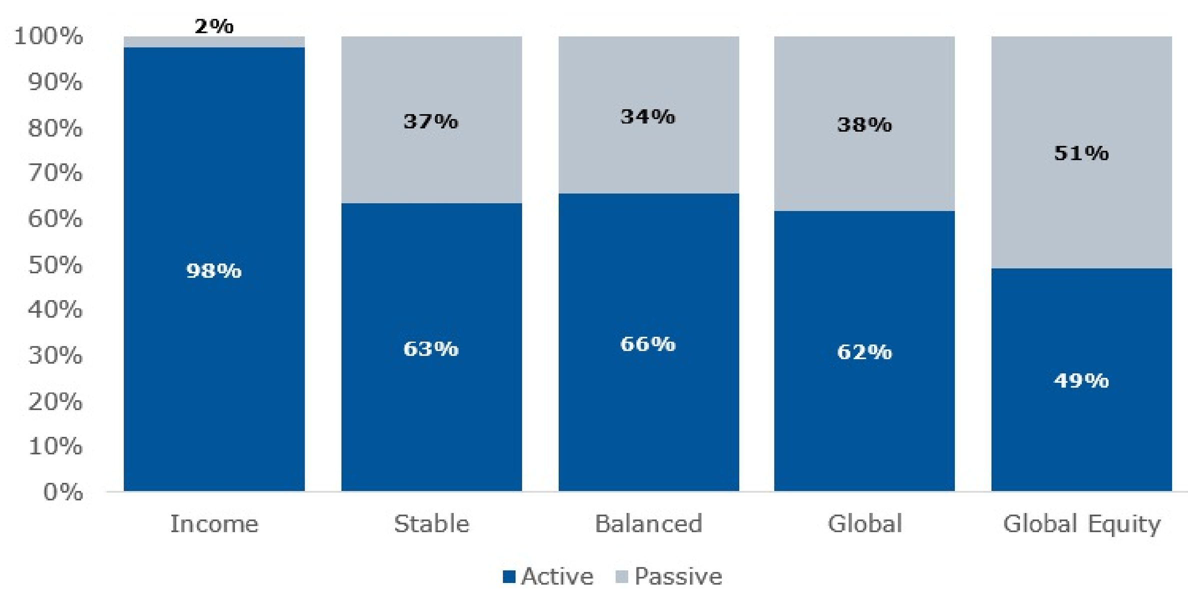
Passive Investing

Passive investing aims to replicate the performance of a specific market index. In South Africa, given the landscape explained above, a poor active manager can destroy a lot of value by missing key market dynamics, so passive investing can offer a straightforward way to gain low-cost market exposure without the need for constant monitoring.

Globally, passive investing has gained popularity due to its cost-effectiveness and simplicity especially in more efficient developed markets. Passive funds often have lower management fees, provide broad market exposure, and reduce the impact of individual stock or sector underperformance.

Seed's Approach

Choosing between active and passive can be challenging for investors. At Seed, we're agnostic between them, and focus instead on those strategies offering the best risk-adjusted net-of-fee returns. Our solutions can, and often do, include both active and passive strategies which enhances the potential for consistent returns. One of the major considerations in our process is to assess whether we believe that an active manager can outperform a passive strategy either consistently or materially (ideally both) and if not, then passive is the way to go. The chart below shows how our Funds are currently positioned.



At Seed, we believe in a balanced and agnostic multi-manager approach. Our portfolios are tailored to the specific needs of our investors, and we remain open-minded and prioritise risk-adjusted returns, acknowledging the dynamic nature of both South African and global markets. We carefully select other managers, whether active or passive, based on which will give our investors the best net of fee returns.

Mike Browne CFA

Portfolio Manager

For guidance or assistance, please feel welcome to reach out to us on investmentteam@seedinvestments.co.za.

On behalf of myself and the team, take care.

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