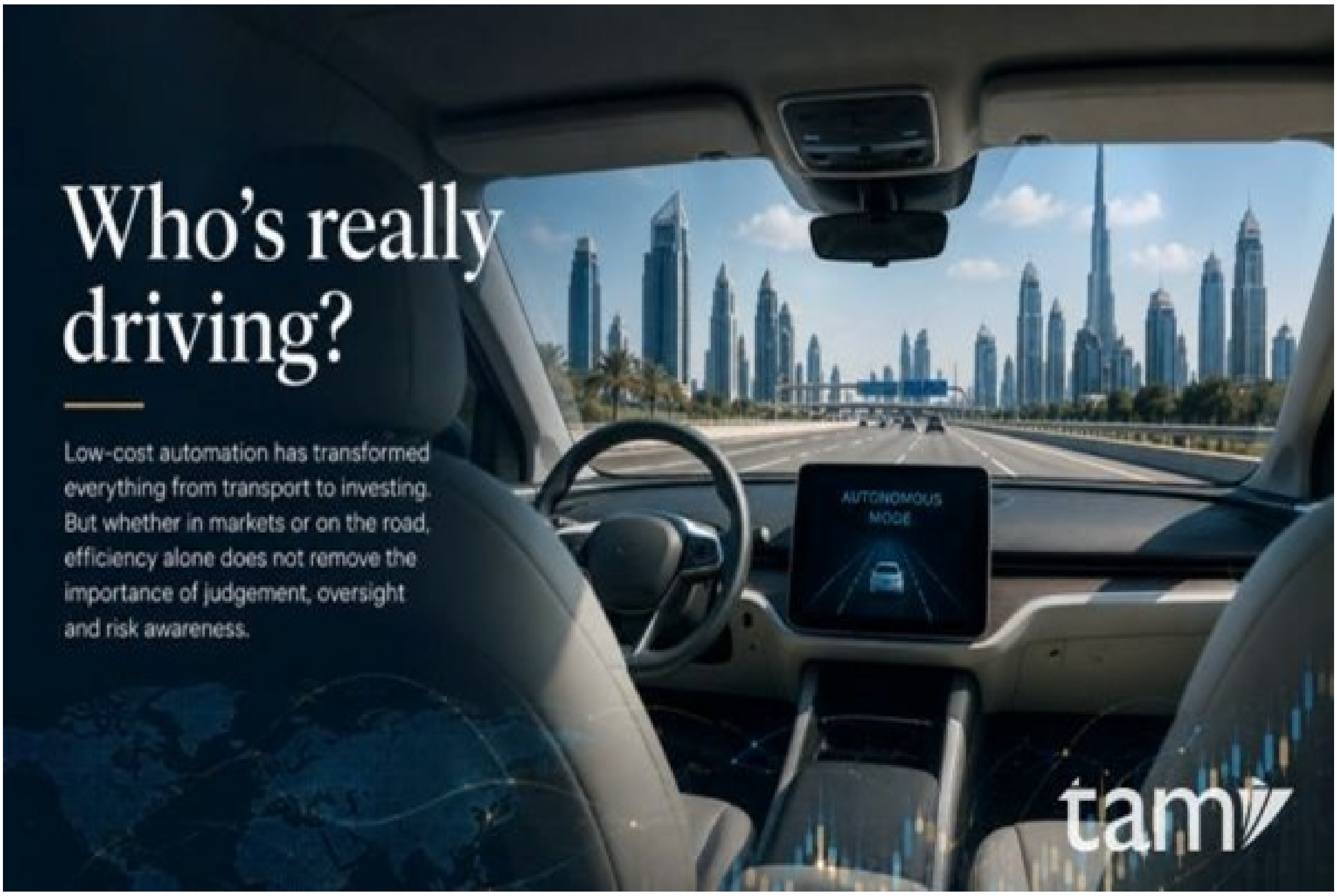

Who's really driving?

Earlier this month, I stepped into a driverless taxi in Dubai for the first time.

The experience was smooth, efficient and, perhaps most strikingly, slightly surreal. There was no driver and no human hand on the wheel. The vehicle simply followed the route, responding to the world around it through a combination of technology, data and preprogrammed rules.

It struck me that passive investing shares many of the same characteristics.

Over the past two decades, passive funds have transformed the investment industry. They are generally transparent, inexpensive and highly efficient. They allow investors to gain broad market exposure without the additional costs typically associated with active investment selection.

These are genuine advantages. They are also why passive funds have become an increasingly important part of modern portfolio construction.

But a driverless car still needs a destination.

Automation can improve efficiency. It should not replace portfolio construction.

In the same way, a passive fund cannot decide whether investors should own more equities or bonds, whether exposure to a particular market has become excessive, or whether changing conditions justify a more cautious approach. It simply follows the index it has been designed to track.

That distinction matters because an index is not necessarily as neutral or diversified as it might appear.

Many of the world's largest indices are weighted according to company size. As a company's value rises, its influence within the index increases. The greatest exposure is therefore often directed towards the companies that have already risen the most.

This has become particularly relevant in the United States, where a relatively small number of very large technology and artificial intelligence related businesses now account for a substantial proportion of the S&P 500.

An investor buying the index is not avoiding an investment decision. They are accepting the decisions embedded within its construction.

Two approaches, one investment discipline

At TAM, we recognise that different clients have different preferences, objectives and attitudes towards investment management. We therefore offer two distinct portfolio ranges: Active and Enhanced Passive.

Our Active portfolios invest primarily through carefully selected active fund managers. These managers research individual companies, assess valuations and seek opportunities to outperform their respective markets. They also have the flexibility to avoid areas where they believe the risks are not adequately reflected in the price.

Our Enhanced Passive portfolios take a different approach. They invest entirely through index tracking funds and ETFs, providing broad market exposure with greater transparency and lower underlying investment costs.

The choice between the two is not simply a question of whether active or passive investing is better. Each has its own strengths and each may appeal to a different type of investor.

Crucially, neither approach means leaving the overall portfolio without direction.

Efficiency without abandoning direction

Within our Enhanced Passive portfolios, index tracking funds and ETFs provide the underlying market exposure, but TAM remains responsible for constructing and managing the portfolio as a whole.

Each portfolio is built around a defined risk profile and diversified across asset classes, geographical regions and investment markets. Rather than relying on a single index, we combine different exposures to create a balanced portfolio designed around the client's longer term objectives.

The investment team decides how much to allocate to equities, fixed income and other asset classes. We consider geographical exposure, valuation, concentration and risk, while seeking to ensure that portfolios do not become overly dependent on one market, sector or investment narrative.

The underlying investments are also carefully selected. Not all index tracking funds or ETFs are the same. We consider factors including cost, liquidity, tracking accuracy, structure and the quality of the provider before deciding which investments should be included.

Once invested, portfolios are monitored and rebalanced to maintain their intended risk profile. This disciplined process helps prevent market movements from gradually pushing a portfolio away from its original objectives.

The result is an approach that brings together several important benefits:

- Broad diversification across markets and asset classes
- Lower underlying investment costs
- Clear and transparent portfolio holdings
- Professional asset allocation and investment selection
- Ongoing monitoring and disciplined rebalancing
- A choice of portfolios aligned with different risk profiles

For clients, this provides a straightforward and cost effective way to access a professionally managed global portfolio. For advisers, it offers a clearly defined investment solution that can be aligned with each client's risk profile, supported by TAM's ongoing management, monitoring and reporting.

This allows clients to benefit from the transparency and cost efficiency of passive investments, while retaining the professional oversight and portfolio management that remain essential to a successful longer term investment strategy.

Importantly, this is not an argument that active management will always outperform passive investing. It will not. Nor is it an argument that passive investments are always the better choice.

It is simply a recognition that choosing an index fund is not the same as removing judgement from investing. Someone must still select the route, monitor the conditions and decide whether the portfolio remains appropriate for the journey ahead.

Technology may increasingly take care of the mechanics. But when it comes to your financial future, it is still worth asking:

Who, or what, is really driving?

If you would like to learn more about how TAM Passive combines low-cost implementation with disciplined portfolio construction, please feel free to get in touch.

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