

Life Covered Investment Summit 2025 Webinar

Glacier Life Covered Summit 2025 – Q&A

Panel discussion: The Lighthouse Approach | Navigating asset management in a sea of volatility

Panellists:

Nico Katzke | Head of Portfolio Solutions | Satrix Investments

Erik Nel | Chief Investment Officer | Terebinth Capital

Sumesh Chetty | Portfolio Manager | Ninety One

Jaco-Chris Koorts | Portfolio Manager | Glacier Invest

Some interesting questions came up in the panel discussion. We thought we'd put together responses from our expert panellists.

- 1. Let's consider tech stocks in the USA and the rand/dollar exchange is at R17.52. Is it an ideal opportunity for growth opportunity over a 10-year period?**
One would have to look at the valuation here. Tech stocks, specifically, have had a very good run. For example, Nvidia is trading on a P/E ratio of 55 and Microsoft is trading on a P/E ratio of 39, to name only two. As such, many believe that the returns have been had and that one has to be very prudent in terms of where to allocate capital at this point. As always, the suggested course of action is a diversified portfolio.
- 2. As indexation grows and passive funds capture more market share, how is this affecting price discovery and capital allocation efficiency in less liquid or emerging markets like South Africa? Are we risking a misallocation of capital if everyone hugs the benchmark?**
This is a good question, and one that is often asked of index managers. We're doing some work at Satrix, looking at the possible distortionary impact that indexation can be expected to have on stock prices.

Let's consider a Goldman Sachs report of 2024:

<https://www.gspublishing.com/content/research/en/reports/2024/11/01/e03d5b95-7f97-45dd-967f-891c3bf12198.pdf>

We found no evidence of increased indexation impacting prices in a distortionary way in the US, where the growth of passive has been exponential. Our research at Satrix here suggests that one should look at what drives price movement – which is not assets under management (AUM), but instead trade that is happening in the market. Here, indexation makes up a very small proportion of actual **trade**, even as AUM grows. One should look at flows for any clue of possible distortion being created: and the share of **index flows** compared to total market **trading** is **very** small, and this is key.

Once assets are allocated to index strategies, they don't trade much (only marginally at rebalancing or with corporate actions). Therefore, the AUM has little, if any, distortive impact on prices over time, compared to active strategies where AUM is actively deployed for price discovery. The notion that index AUM creates and reinforces momentum has no evidence nor logical reason for it to do so, considering that these assets are price takers, not price makers – and are not deployed to trading over time.

Simply put, index flows create a one-off trade typically struck close to or at the NAV, whereafter it is not actively deployed for price discovery. As to the point on liquidity – our experience here is that liquidity is more a function of the available opportunity sets and perceived risks in the market and willingness of managers to take advantage of opportunities. Liquidity in the US, where indexation has eclipsed active, has increased and not decreased over time. It remains to be seen if more indexation adoption in SA causes a material drying up of liquidity, but we could argue that drawing this link won't be clear. Less active manager numbers may imply more impetus for the remaining managers to be more active and trade more.

At the extremes, one could plausibly argue that 90% of AUM in active that isn't really active (low active share) trades far less and is less efficient than a market where 20% of AUM is in active, but the remaining managers are truly active and looking to differentiate.

3. **Discussing growth, if you compare traditional funds with hedge funds, which has more tools available to generate positive returns, in the long term where would you get the best result as a client, in five, 10 or 15 years?**

Hedge funds technically have more tools, since they can utilise short selling to produce a positive return even when the market falls. In practice, however, this is not an easy skill, and therefore not all hedge funds outperform their long-only counterparts. A diversified portfolio consisting of high quality long-only and hedge funds continues to be the best course of action.