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Blending index trackers with active managers

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Since launching in 2010, Tacit strategies have held a blend of active managers and index trackers. The bias at any point in time has been a reflection of the opportunities and risks our Investment Strategy Group anticipates, relative to the costs implications of owning active funds which are generally more expensive than trackers.

Recently we have found ourselves reducing our index tracking exposure marginally in favour of active managers for the first time in two years as concentration risk is now a global risk in equity market indices on a scale we have not seen in our careers.

The current landscape of global equity markets is increasingly defined by a narrow leadership that echoes the structural concentration seen in the UK market in 2010. While the UK market at that time was dominated by a handful of massive commodity and financial giants, today's MSCI Emerging Markets (EM) and Nasdaq 100 indices exhibit similar patterns of heavyweight dominance, albeit driven by the artificial intelligence (AI) and semiconductor sectors. This mirroring effect highlights a recurring market cycle where a specific structural theme (commodities in 2010 for the UK, and AI hardware and infrastructure today) creates a "winner-take-all" dynamic that concentrates index returns into a small group of large constituents.

In 2010, the UK equity market was characterised by extreme concentration in three primary sectors: materials (mining), fossil energy companies, and banks. The FTSE 100 and FTSE All-Share indices were heavily influenced by these groups, with the FTSE All-Share Mining index alone significantly impacting overall market performance.

Major constituents like BP, Royal Dutch Shell, and the large, diversified miners held massive weights in the index, alongside a concentrated banking sector featuring HSBC, Barclays, Lloyds, and Royal Bank of Scotland. This concentration meant that the UK index was highly sensitive to specific macro drivers, specifically global commodity prices and interest rate shifts. During 2010, the UK equity market experienced a rocky path, falling 18% in the second quarter before recovering to end the year with a 9% gain as monetary support sustained the recovery.

This concentration is now mirrored in the Nasdaq 100, where a tiny group of technology companies, the Magnificent Seven, exerts similar influence.

The weight of these companies is so significant that a 10% decline in the Magnificent Seven would result in a roughly 3.5% fall for the entire S&P 500 index, requiring the remaining 493 stocks to gain 5.4% just to keep the index flat. This creates a narrow market breadth where index-level returns are disconnected from the average stock, much like the UK's resource-heavy index in 2010.

Perhaps the most striking mirror today is in the MSCI Emerging Markets index, which has transitioned from being a commodity-proxy to a high-concentration technology and AI-hardware index. As of July 31, 2026, the Information Technology sector accounts for 40.8% of the MSCI EM index, having been below 15% when we added exposure to our strategies in 2023.

Concentration at the top is extreme: TSMC represents a 15.5% weight in the index, followed by Samsung Electronics at 7.2% and SK Hynix at 5.6%. Combined, the top ten constituents of the MSCI EM index now account for 38.1% of the total index weight. This concentration mirrors 2010's UK market by tying the index's fate to a single structural driver. Just as the

UK was a bet on global commodity demand, the MSCI EM is now a bet on the AI revolution, with six of the index's ten largest holdings are classified within the technology sector and together represent approximately 32% of the index. Many are central to the semiconductor and hardware supply chain supporting the global AI build-out.

We still believe that AI will prove to be a defining technology with profound impact, possibly some less good than other contributions it will make, that will endure and will significantly influence how companies prosper in the future. But there will unquestionably be winners and losers and simply owning the field of companies currently running in the AI race is unlikely to succeed. It is for this reason that we have shifted from passive index trackers to active managers.