Insights, Tacit Thought | Weekly Investment Insights

Index trackers and active funds

Published on: 31 July, 2026 | Author: Investment Team

Tacit strategies have had, and continue to have, a significantly larger exposure to Asian and Emerging Market equities than many of our peers, a decision which has positioned us well looking back over the past three years. However, the exposure is not easily understood in a market which is increasingly driven by a few technology names rising or falling 10% on a daily basis.

Asia and Emerging Market equity funds have become more exposed to concentration risk over the past year, largely because a relatively small group of technology and semiconductor companies has driven much of the market's gains. For a UK client, the practical implication is that a fund that looks diversified on the surface may, in reality, be strongly tilted to a narrow set of stocks, sectors, and country-specific risks. That can leave investors with more volatility than they expected, especially if technology leadership weakens or valuation multiples compress.

This is particularly relevant for passive index funds, which appear cheaper than their active counterparts, but will automatically allocate more capital to the companies whose share prices have risen the most. In other words, the index, and the funds which match it, can become most exposed to the very stocks that now sit at elevated weights. For investors already holding technology exposure through the US (such as Tacit), this adds significant risks which need to be considered carefully. The following table summarises the different approaches and the implications for portfolio compassion of the active Asian and Emerging Markets funds held in the Tacit strategies, compared with the MSCI Emerging Markets index.

Strategy	Main valuation driver	What it tends to avoid	Portfolio implication
MSCI Emerging Markets	Market-cap leadership	Nothing, it owns the index	High exposure to recent winners, especially tech and semiconductors
Valuation-led active strategy	Quality and valuation discipline	Some crowded benchmark leaders	Less index-like, but still equity-market sensitive.
Income-focused active strategy	Dividend security, cash flow, re-rating	Lower-quality yield traps and expensive growth	More income-focused, more valuation-aware, often less tech-heavy.

By contrast, a stock-picking strategy is not tied to the benchmark's market-cap weightings in the same way. Their positioning can differ materially from the index, typically reflecting valuation and quality considerations rather than simply following the largest constituents. That reduces exposure to some of the most crowded holdings, but it also means the fund can look meaningfully different from the broader market and may lag if the dominant technology names continue to outperform.

In the current environment, that kind of positioning should help avoid the heaviest concentration in the benchmark's biggest technology winners. The trade-off is that this more measured positioning may also limit participation if those same names continue to drive market returns. It is important to understand that the Tacit strategies own Asian and emerging market equities because the selective exposure we have is cheap relative to history, and the underlying companies are growing strongly irrespective of the AI driven hype.

Managing for volatility is difficult in the short term, but history shows that owning growing companies at low valuations will be rewarded over time.

Important Information: Any views, insights, or commentary are for general information only, do not constitute personal investment advice or research, and are intended for UK residents. They may not be appropriate in all jurisdictions. While sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.

Regulatory Disclaimer: Tacit Investment Management is the trading name of TIML Limited (No. 9228395), part of Tacit Holdings Limited (No. 10611211). Both companies are incorporated in England and Wales, with the registered office at 14 Hanover Square, London W1S 1HN. TIML Limited is authorised and regulated by the Financial Conduct Authority (FCA ref. 670184) and approves and issues this communication under Section 21 of the Financial Services and Markets Act 2000. Please note, tax and estate planning services are not regulated by the FCA.