It Pays to Play by the Rules

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When it comes to investing, consistency is everything, and our Satrix Balanced Index Fund – now celebrating a decade – has been one of the most consistent performers compared to peers in its category, averaging top quartile three-year performance since inception.**

And it's not a fluke. It's a direct result of disciplined asset allocation and minimising the drag of high fees – two factors that reliably compound in investors' favour over time. It's a lesson that extends far beyond a single fund.

This is the heart of the case for index investing: access broad market exposure at the lowest possible cost point and let time – not timing – do the heavy lifting. In finance, you get what you don't pay for.

How Can Investors Best Use Index Funds?

But costs are just one piece of the puzzle. Your investment horizon, liquidity needs, and risk tolerance matter just as much. That's why the choice between active (alpha) vs passive (beta) isn't universal – the right blend depends on your needs. So, after decades of passive funds outperforming most active managers both globally and locally, the question is no longer "do index funds work?" The results speak for themselves. The real question is: how can investors best use them?

We've analysed how active managers compare to their stated benchmarks. On a monthly basis, passive strategies deliver only slightly better than average returns. But over three years, benchmarks outperform the average active manager 70–80% of the time. Extend that horizon, and the probability of passive outperformance rises further. This trend holds across geographies and rolling time windows.

So yes; the case for indexation is empirically solid. But that doesn't mean active managers don't have a role to play.

Active managers are essential to efficient price discovery. More than that, they can help manage short-term volatility and identify tactical opportunities. In our own research, we've found that active strategies can consistently add value through style and opportunity diversification – particularly when avoiding overexposure to dominant themes and market trends. They also offer short-term risk management, which can be especially helpful for investors with lower risk tolerance or shorter timeframes.

The Best of Both Worlds

Blending passive with active may therefore offer the best of both: cost-efficient long-term performance through indexation, and smoother short-term outcomes via active oversight.

But the blend isn't one-size-fits-all. The biggest determinant of long-term investor success isn't the manager – it's asset allocation. The proportion of equities, bonds, cash, commodities, credit, and geographic diversification in a portfolio matters more than any stock pick. Once an appropriate asset allocation is determined – ideally through professional advice – the next step should be to access this exposure (beta) at the lowest cost. Then, selectively add active strategies where they can reliably deliver outperformance (alpha) or provide meaningful diversification.

In South Africa, though, investors have historically opted to get both alpha and beta from the same place – active managers. That often means paying more for exposure you could access more cheaply. This is unlikely to remain sustainable as markets become increasingly efficient. With technology reducing the prevalence of mispricings, it's becoming harder for active strategies to consistently outperform.

That doesn't make active management redundant. It does, however, mean its value must evolve; towards managing risk, diversifying style exposure, and adding true differentiation. Yet the industry remains biased toward measuring manager success mostly on relative return – largely outside their control – rather than on risk control and portfolio diversification, which are within their influence.

Currently, only around one in ten rand invested in South African Collective Investment Scheme (CIS) funds is allocated to low-cost index strategies. That's a stark contrast to markets like the US and Europe and points to a cultural misunderstanding: indexation isn't just a way to cut costs; it's a proven method of delivering better performance over time. And getting both alpha and beta from a single source is inefficient. Index funds should provide exposure as cheaply and efficiently as possible; active managers should be ***truly*** active.

Room for Both Active and Passive Strategies

The key takeaway? There's room for both active and passive strategies. The right mix depends on how long you plan to stay invested and how much volatility you're prepared to stomach. Long-term success depends less on chasing outperformance and more on staying invested. If active management can help an investor ride out short-term uncertainty without derailing their plan, that can be worth its weight in gold.

In the end, the best strategy is the one you can stick to – especially when it's built to give you the odds over time.