Beyond the benchmark:

How enhanced indexing is redefining quantitative investing

For investors, the debate between passive and active management has often been framed as a binary choice. Passive, low-cost index strategies offer exposure to the broader market with predictable benchmark alignment, while active portfolios tend to be more concentrated. Enhanced indexing is a third option that allows investors to track an index while applying a rules-based quantitative overlay that excludes certain stocks or limits exposure to certain sectors.

Although enhanced-indexing has been around for some time, it remains relatively unfamiliar to many investors. As a result, investors typically choose either a passive or an actively managed fund rather than specifically seeking out enhanced-indexing portfolios.

As a discretionary fund manager (DFM) and multi-manager, we spend a great deal of our time identifying asset managers from around the globe who are experts in various asset classes. Robeco Asset Management is one of the international asset managers that we use. Based in Rotterdam, Netherlands, they were founded in 1929 and specialise in sustainable, fundamental and quantitative investing. They began developing their proprietary quantitative model in the 1990s, initially to support their own fundamental investment strategies. Their first standalone quantitative strategy followed in 2004.

Although the core philosophy remains intact, the model has evolved substantially. We recently met with the team and according to Jeanne Spronk, client portfolio manager for Robeco's quantitative team, this evolution is deliberate rather than fashionable. New ideas must demonstrate robustness, economic logic and practical investment value before they are incorporated.

That creates a demanding threshold for innovation. Only about 15% of the ideas that enter Robeco's full research process ultimately influence the core model. Existing signals are also continually reassessed, refined or removed as markets, academic research and available data change. This discipline is intended to distinguish enduring investment insight from back-tested coincidence. Robeco estimates that approximately 80% of the historical outperformance of its longest-running quantitative strategies is attributable to firm-specific performance drivers rather than to straightforward exposure to traditional risk premia.

How can retail investors access these types of strategies? For our clients who have already externalised their wealth, they are able to gain access via our hard currency portfolios

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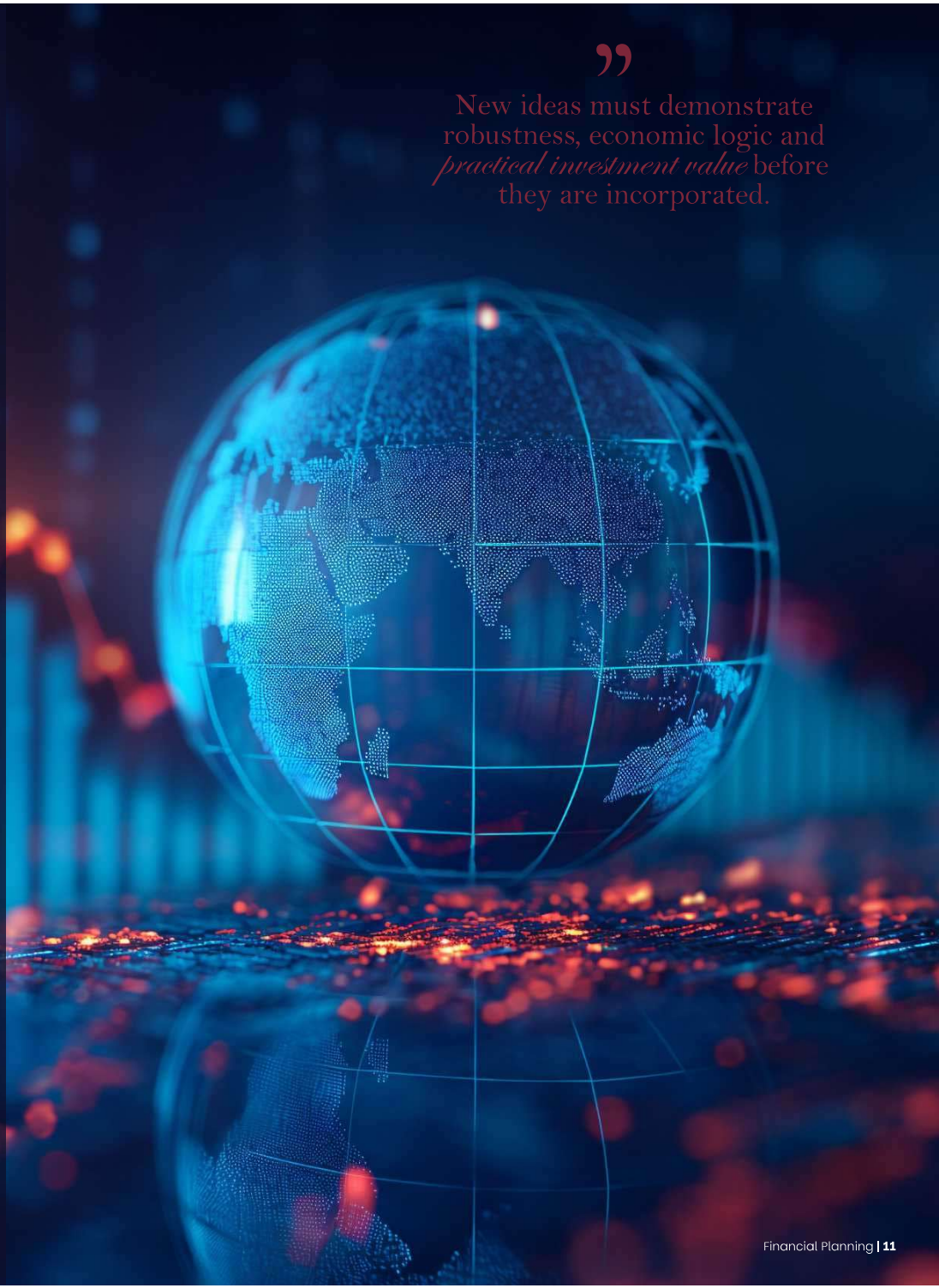

domiciled in Guernsey. And for investors wishing to use asset swap to access offshore, access to Robeco is available via the Curate Global Sustainable Equity Fund and the Curate Global Emerging Markets Equity Fund – both enhanced indexing strategies managed by Robeco's quantitative investment team. The approach seeks to retain many of the characteristics investors value in passive portfolios, including diversification, liquidity and controlled benchmark-relative risk, while using systematic stock selection and efficient portfolio construction to pursue incremental alpha.

Rather than relying on a limited number of high-conviction positions, these strategies are designed to generate returns through many relatively small contributions across a highly diversified portfolio. We rely on Robeco's expertise to identify attractive investment opportunities while remaining cognisant of liquidity constraints and the interaction of risks across the wider portfolio.

For clients who would prefer a fully active solution, we have historically favoured exposure through Blackrock's I-shares for hard currency portfolios and via the Satrix or 1Invest feeder funds for the asset swap allocation.

And then, we have a wide variety of active managers covering the allocation to offshore equities, fixed income, property hedge funds and more recently, direct assets.

At Equilibrium, we have a global presence with teams based in South Africa and the United Kingdom. We believe this gives us a competitive advantage. It allows us to service our South African advisers and their clients, safe in the knowledge that our offshore team can focus on identifying the best global managers for each of the strategies that we require.

At our recent EQ Quarterly Bulletin, Robeco's investment specialists unpacked their developed market and emerging market enhanced index strategies, highlighting how the investment manager aims to deliver consistent outperformance over traditional index tracking while maintaining broad market exposure.

For more information about Equilibrium, visit our website at eqinvest.co.za.

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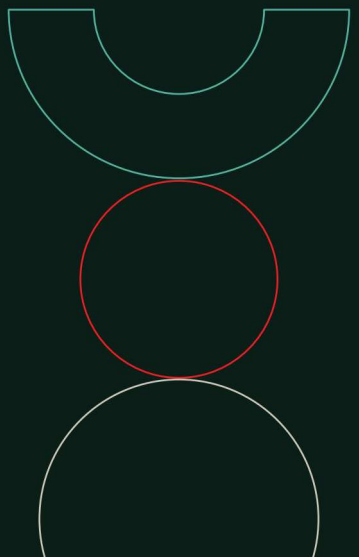

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Discretionary Fund Management

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