GUARDCAP

December 2025

Market Concentration and Elevated Risk:

Why GuardCap Global Equity Offers Genuine Diversification at a Time When it is More Needed Than Ever

Executive Summary

The investment landscape has fundamentally shifted. Passive investing now exceeds active management globally, driving unprecedented concentration in equity indices. The top eight companies in the MSCI World Index are identical to the NASDAQ 100's top eight, creating a situation where standard global equity exposure has become, in effect, an investment in big tech.

This paper explains why the GuardCap Global Equity Strategy maintains exposure to AI through high quality companies with large, unique proprietary datasets, rather than through the AI infrastructure builders, and maintains its focus on balance sheet quality at a time when massive infrastructure build-out is leading to deteriorating cash flow and balance sheet quality. More generally, we examine the risks inherent in current passive investing trends, and demonstrate why we believe that our strategy is one of few to offer genuine diversification, essential in today's elevated risk environment.

Finally, we consider how the current headlong rush into AI is creating unprecedented valuation opportunities in companies in other industries with elevated growth rates and safe, steady, resilient business models that are not excessively sensitive to global GDP growth trends.

The Passive Investing Phenomenon

A Historic Shift

In 2023, passive investment vehicles surpassed active management for the first time globally. This milestone reflects more than a preference shift—it represents a structural change in how capital flows through markets.

Many investors have switched to passive vehicles because they have outperformed actively managed counterparts in recent years. The reason is straightforward: these vehicles hold big tech companies in concentrations few active managers can replicate. This outperformance attracts more capital, which flows disproportionately into the same concentrated holdings. We now face a self-reinforcing cycle: people are buying the index because people are buying the index.

The Concentration Problem

This dynamic has created unprecedented market concentration. The MSCI World Index now shows considerable concentration levels – the top 8 companies by weighting in that index are now the same as the top 8 companies in the tech-focused NASDAQ 100. Nearly half the index weight of the NASDAQ, and over a quarter of the index weight of the MSCI World Index resides in the same eight companies.

	Nasdaq 100	S&P500	MSCI World	MSCI ACWI
Nvidia	9.9%	8.0%	5.7%	5.0%
Apple	8.2%	6.6%	4.7%	4.2%
Microsoft	8.4%	6.8%	4.5%	4.1%
Alphabet	6.0%	4.5%	3.3%	2.9%
Amazon	5.1%	3.7%	2.6%	2.3%
Meta	3.5%	2.8%	2.0%	1.8%
Broadcom	5.6%	2.7%	1.8%	1.6%
Tesla	3.5%	2.2%	1.6%	1.4%
	50.2%	**37.3%**	**26.2%**	**23.3%**

Source: GuardCap Asset Management, Bloomberg, as of 30 September 2025. For illustrative purposes.

A standard global equity allocation has therefore become something quite different from what most investors intend: a significant bet on AI infrastructure buildout, with all the risks that concentration brings.

AI Infrastructure Uncertainty and Speculation

When we analyse companies involved in the rapid build-out of AI infrastructure, we encounter a fundamental problem: **we cannot forecast their earnings and cash flows with conviction over a five-year horizon**. The quantum of enterprise and individual adoption of AI services remains unknowable, as does the pricing that these companies will ultimately command for providing these services. Part of this uncertainty arises from the fact that there will be fierce competition to provide data centre and cloud computing services, where offerings will be to some extent similar to each other, or commoditised.

Without reliable forecasts, we cannot determine what these companies are truly worth. Investing in them thus becomes speculation—buying because others are buying and they are currently performing well. Furthermore, much of the current demand for these stocks comes through passive vehicles, benchmark-hugging portfolios, or short-term strategies.

There is no question that a technology investment boom is certainly taking place, both in terms of the investments in AI infrastructure being made by leading tech firms, but also in the appreciation of their stock prices. Trillions of dollars are expected to be invested by the big tech companies over the next 5 years, with no certainty of good returns on that investment. For example, according to Epoch AI, a non-profit research institute investigating the future of AI, OpenAI's revenue is approximately $13 billion a year, while Anthropic and Google DeepMind each earn single digit billions per year. No other AI company surpassed $100 million in revenue in 2024 by selling access to their own models. However, companies such as Microsoft and Amazon make more revenues than top AI companies by charging for access to third party AI models. Microsoft alone reports $13 billion in revenues from its AI business, seemingly driven by sales of Copilot, which uses OpenAI models.[i] Total CAPEX by these firms projected to 2030 is nearly $7 trillion.[ii] Open AI's revenues last year were $13 billion, with $8 billion of losses. Its current valuation is around $500 billion, and some reports suggest that an IPO next year could value the company at $1 trillion. In a recent paper, MIT pointed out that 95% of companies are getting "zero return" on their AI investments.[iii]

A further source of concern is that the rate of depreciation of the datacentre equipment is uncertain. Some estimates suggest that the current generation of GPUs will become obsolete in as little as three years because of continued advances in architecture and materials. Also, factors such as heat limit their operational life. While opinions differ on the useful life of, for example, Graphic Processing Units (GPUs), many firms have moved to an "industry standard" for AI server equipment of 5-6 years, from a previous level of 3-4 years.[iv]

On the other hand, we believe it is perfectly reasonable to have a bullish opinion about the general outlook for the companies building out the infrastructure to enable AI to work and the returns they may get from that – but in the absence of provable future returns, this is the exact problem – it is a matter of opinion. You may have a bullish opinion or you may have a bearish opinion, but there is no certainty or predictability to this. There is no opportunity to generate a set of forecasts on companies like these and to have complete conviction in them. This absence of the "predictability" of returns is the reason why we are not heavily invested in the infrastructure element of AI and also suggests a significantly greater degree of risk now present in technology companies, and consequently in the stock market indices of which they now form such a significant part.

Historical Context Matters

Most major technological advances in the past have been accompanied by a stock market bubble of some kind. A recent economist article ("What if the AI Stockmarket blows up?", 7th September 2025[v]) summarised major technological advances over the last two centuries and the damage done by the market "bubbles" that accompanied them. We believe that the current situation is no different.

Select Technology Bubbles

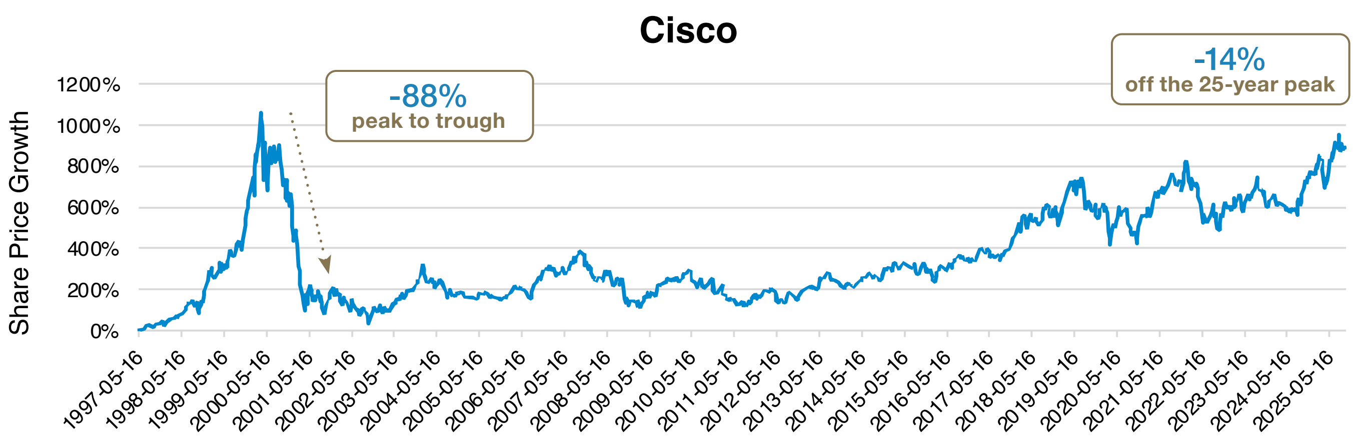
Date	Sector	Geography
1840s	Railways	Britain
1870s	Telephone	United States
1880s	Electric light	United States
1960s	Electronics	United States
1980s	Consumer tech	Japan
1990s	Dot-com	United States/Europe

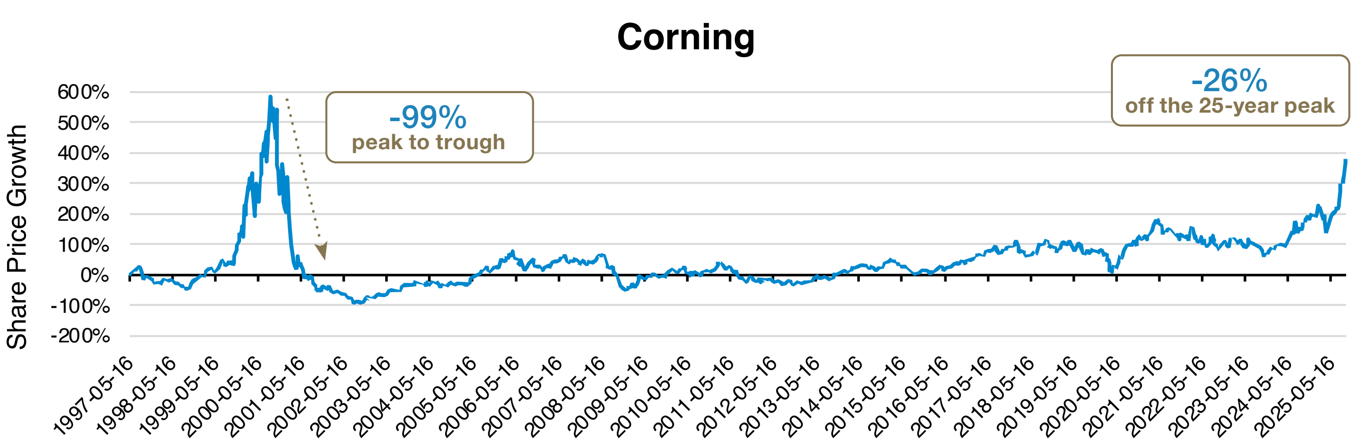
Source: The Economist. "What if the AI Stockmarket blows up?", 7th September 2025.

The CEO of the US's biggest bank, Jamie Dimon, has commented publicly that he has concerns around the danger of a tech-led crash. Mr. Dimon has recently been joined by a number of other leading figures in warning of the dangers of a "tech bubble".

Jeff Bezos recently discussed what he called "good bubbles" – the idea that unbridled investor enthusiasm makes the financing of projects easier and enables humanity to progress and fully to exploit the new technology. However, a potential by-product of this positivity is over-enthusiasm, over-investment and over-valuations, which can lead to many enduring considerable losses as the period of euphoria comes to an end.

The "dotcom boom" offers instructive parallels. In 2000, companies like Cisco Systems and Corning— among the "infrastructure-builders"— lost 30% of their value within a week when Cisco's results were a little adrift of market expectations. Cisco's peak-to-trough decline reached 88%, Corning's 99%. Neither has returned to their 2000 peak prices, even 25 years later.



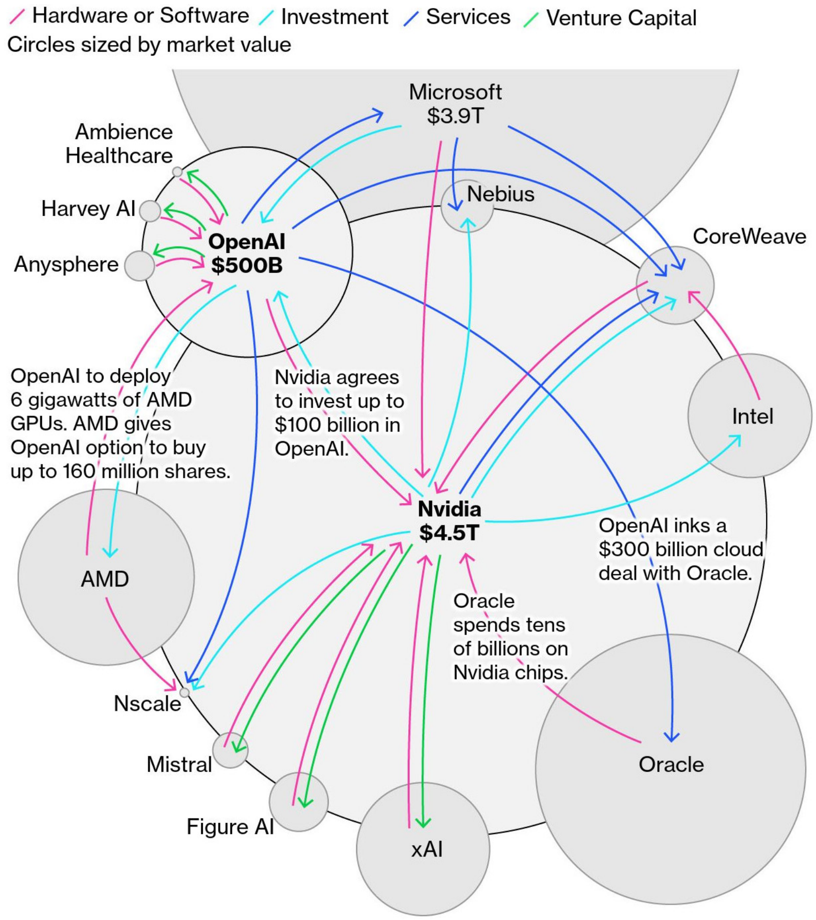


Source: GuardCap Asset Management, Bloomberg. Data as of 3 October 2025. References to specific securities are for illustrative purposes only and do not constitute investment advice or a recommendation to buy or sell any security.

How Nvidia and OpenAI Fuel the AI Money Machine

The dot-com boom and ensuing tech wreck were of course different in some ways – the stock markets of the time were awash with IPOs of unprofitable dot-com companies with unviable business models and valuations even of profitable companies at the time were arguably more expensive. But there is one important similarity: – the internet did change the world and lead to significant productivity improvements for the generality of companies. The excessive fibre-optic networks built at the time were ultimately used. However, this did not prevent a damaging stock market crash from 2000-2002 as market euphoria gave way to a more sober realism about the prospects for the new technology.

We also observe concerning patterns from that period re-emerging today, including circular deals between major players. A recent Bloomberg report[vi] highlighted how Nvidia and OpenAI engage in transactions that both accelerate the investment boom and increase systemic vulnerability—precisely the dynamic seen in 1999-2000.

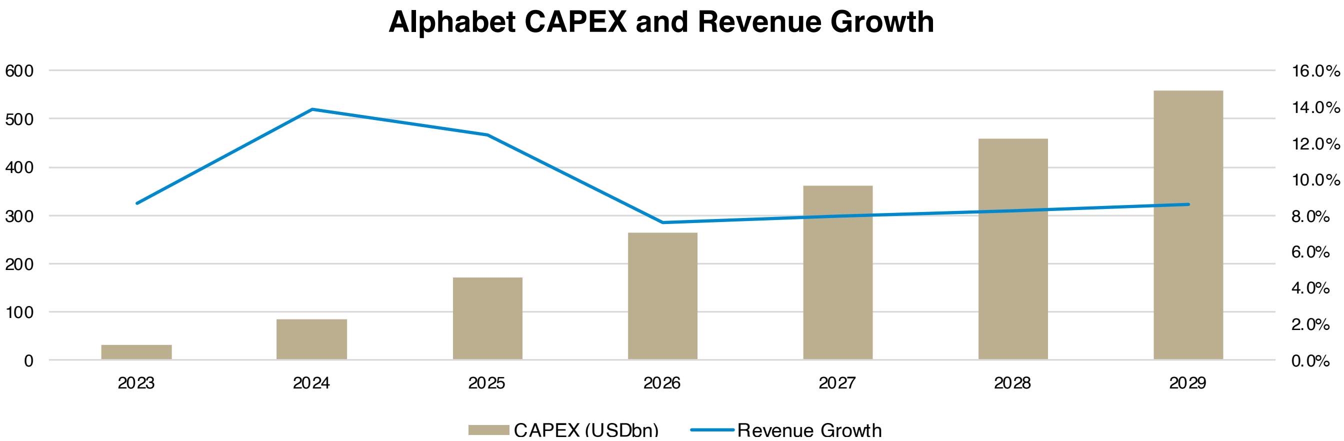


Source: Bloomberg News reporting.

Slowing Core Business Growth in Some Big Tech Companies?

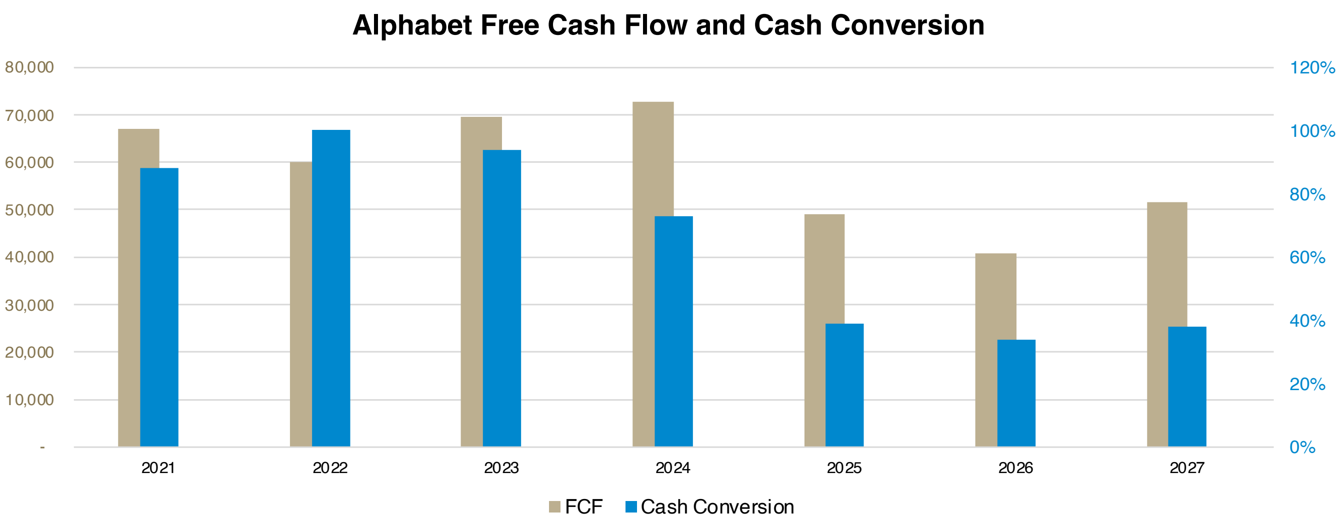
Beyond AI uncertainty, the pre-existing businesses of some of the big tech companies face decelerating growth. Digital advertising exemplifies this: when we first invested in Alphabet in 2010, digital advertising accounted for around 16% of the total global advertising market. By Q1 2025, when we sold our position, digital advertising had reached 70% of the global market. Revenue growth rates from providers of digital advertising services are expected to slow down as digital advertising approaches a “saturation point” and as the “law of large numbers” limits the pace of future penetration. Similarly, the times when some of the current world leading technology companies were “disruptors” competing with outmoded ways of doing things – Amazon versus bricks and mortar retailers, for example, or Apple versus Nokia, Tesla versus the legacy original equipment manufacturers (OEMs) - are over and increasingly big technology companies compete with each other or with legacy providers who have modernised their offers.

Meanwhile, cash flow and balance sheets are expected to deteriorate to some extent as big tech companies pour capital into AI infrastructure. Alphabet, for example, is expected to burn through its entire cash balance by 2028 if it continues with its current share buyback programme.



Source: GuardCap Asset Management, GuardCap Global Equity Team Forecasts, 30 September 2025. For illustrative purposes.

We believe that this combination—slowing core business growth, massive capital expenditure, and uncertain AI returns—does not present an attractive risk-reward profile, particularly for stocks that have appreciated substantially on passive inflows and optimistic sentiment.



Source: GuardCap Asset Management, GuardCap Global Equity Team Forecasts, 30 September 2025. For illustrative purposes.

An Economic Experiment

We believe current market enthusiasm masks significant economic challenges:

- **US Structural Issues:** The world's leading economy faces its highest effective tariff rates in nearly a century alongside a burgeoning fiscal deficit. According to JP Morgan, AI related expenditures accounted for 1.1% of GDP growth, outpacing the U.S. consumer.[vii] If returns disappoint, underlying structural weaknesses in the rest of the US economy could be exposed.
- **Deficit Concerns:** Whilst not currently troubling markets excessively, the expanding fiscal deficit in the United States and in other leading economies poses long-term risks. Bond markets have already stripped the US of its AAA rating. Should yields rise to reflect mounting fiscal concerns at some point in the future, debt servicing costs could spiral, creating severe economic stress.
- **Wealth Effect Risks:** Equities share of total household assets has risen to an all-time high of 31% of US households' financial assets, according to Federal Reserve data.[viii] Exceeding the 25% peak during the dotcom boom. Oxford Economics estimates that consumer spending moves 14 cents for every dollar change in financial wealth.[ix] A significant market decline would directly impact consumption and GDP growth, creating a negative feedback loop that would hurt earnings and stock prices further.

The Self-Reinforcing Cycle

Most companies' earnings are sensitive to GDP growth. Index constituents are no exception. When economic outlook deteriorates, index-heavy portfolios suffer disproportionately—yet passive flows continue to direct capital toward these same concentrated holdings, regardless of valuation or economic conditions.

How GuardCap Differs

The GuardCap Global Equity Strategy now offers an exposure to listed stocks that is very different from indices and most other actively-managed portfolios. This difference stems from:

- **Our Approach**
- **Our Portfolio's Relative Insensitivity** to GDP growth trends
- **Our Exposure to AI-ready Companies** rather than AI infrastructure builders
- **Valuation**

Our Approach

The GuardCap Global Equity Strategy is built on a specific foundation: we invest only in companies where we can forecast earnings and cash flows with reasonable accuracy over a five-year period.

This approach requires conviction and certainty, not speculation. This predictability allows us to:

- Avoid speculative investments by knowing, with high confidence, how much companies will grow
- Use rigorous valuation techniques to identify genuine opportunities for double-digit returns
- Build portfolios with lower volatility than the index, given the reduced earnings variability of our holdings
- Provide downside protection when markets anticipate economic deterioration

Proprietary Dataset Advantage

While we limit exposure to AI infrastructure builders, our portfolio is positioned to benefit from AI adoption without the associated risks.

Many GuardCap holdings possess unique proprietary datasets—a sustainable competitive advantage that allows them to integrate AI into their processes at minimal cost. These companies can derive AI benefits without the massive capital expenditure creating uncertainty in big tech.

Here are examples from our portfolio: These companies can enhance their operations with AI without the speculative infrastructure investments that create valuation uncertainty in big tech.

Company	Business	Data Advantage
ADP	Human Resources Technology	Processes payroll for one in six, >40m private sector employees
Novonesis	Biosolutions	20m enzymatic structures and 40k indexed biological strains enhanced by decades of internal data on applied research learnings
UnitedHealth	Healthcare	Extensive data on >100m US patients
Verisk Analytics	Data Analytics	Most comprehensive data assets in US insurance industry: >2bn transactions pa, >30bn statistical records, >1.5bn claims records
Yum China	Restaurants	Loyalty scheme with over 550 million people

Source: GuardCap Asset Management, GuardCap Global Equity Team. As of 30 September 2025. For illustrative purposes.

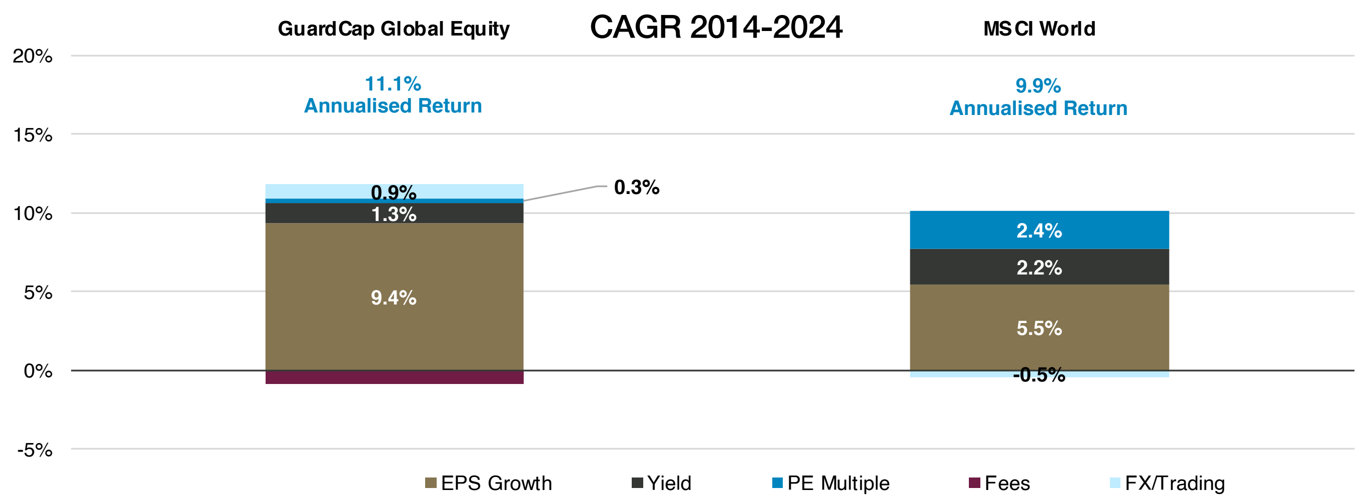
Relative Insensitivity to Global GDP Growth

One of the key differences between the companies in the GuardCap Global Equity Portfolio and the generality of companies as represented by leading indices such as the S&P500, or the MSCI World Index, is that our companies are less sensitive to global GDP growth trends. This is because one of our key investment criteria is that each and every company in which we invest must be operating in an industry that benefits from a long term secular growth trend. Companies in secular growth industries such as healthcare are more likely to perform well amidst a global GDP growth downturn than companies in more GDP-sensitive or "cyclical" industries.

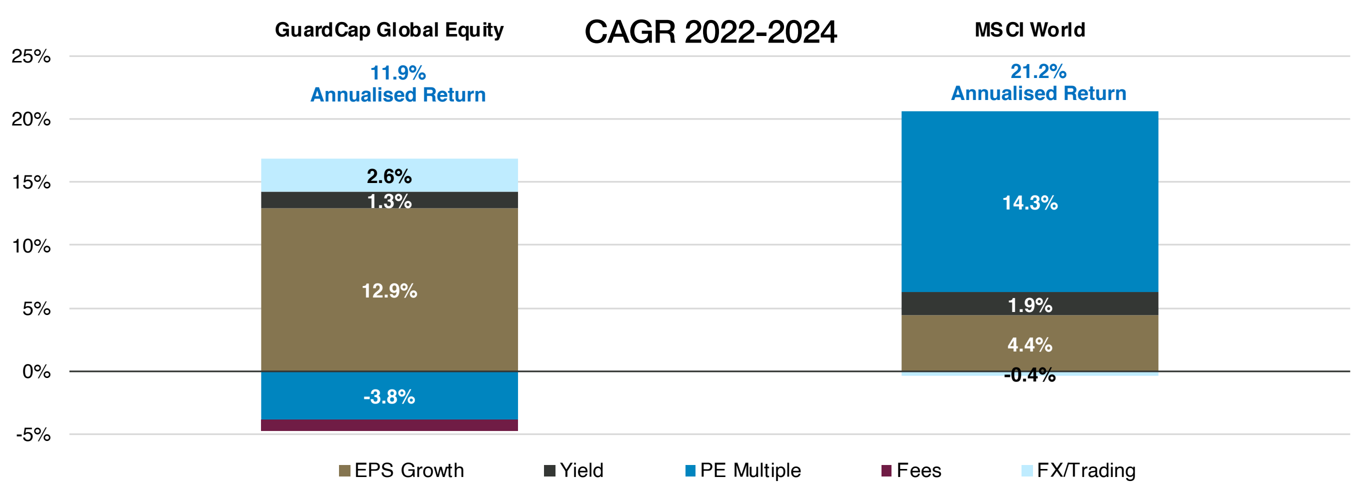
We think this is particularly important given the risks to GDP growth posed by the current reliance on AI infrastructure build and the inter-dependence of US GDP growth and the current AI investment and stock market "boom".

Valuation

Equity returns over time are driven by three key components: earnings growth, dividend yield, and changes in valuation multiples. Since 2014, our strategy has delivered 9.4% annualised earnings growth—well ahead of the MSCI World's 5.5%. Over the same period, we have seen only 0.3% annualised multiple expansion, while the Index benefited from a 2.4% annualised P/E multiple expansion, an unusually elevated figure over such a prolonged period.



Most of the index's multiple expansion occurred in 2023 and 2024, averaging 14.3% per year—a clear sign of a liquidity-driven rally. During this period, our high-quality holdings were de-rated on average by 3.8% annually, as investor preference shifted toward more speculative and cyclical growth names.

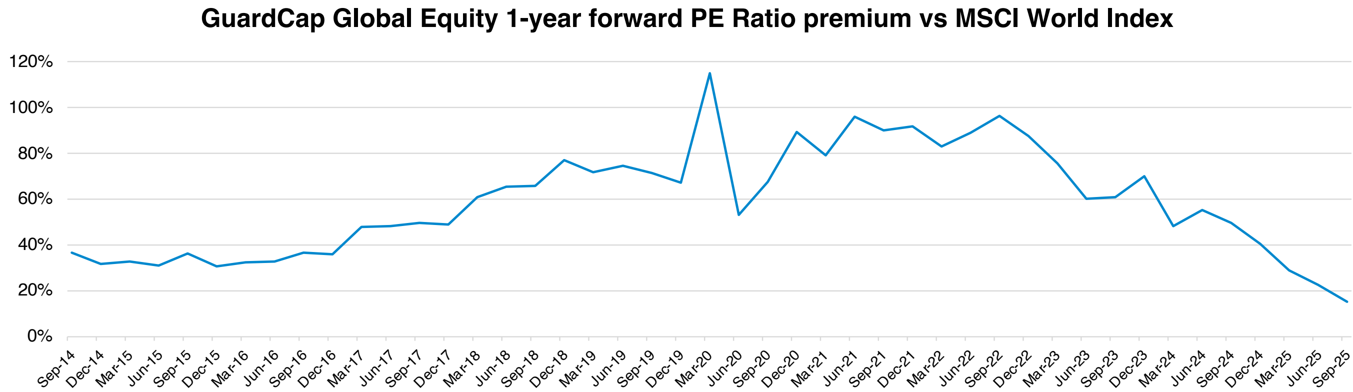


Source: GuardCap Asset Management December 2024 – This data is produced for illustrational purposes only. GuardCap Global Equity Fund in USD (net of fees). Portfolio inception 10/12/2014. The value of investments and any income from them is not guaranteed and may go down as well as up; you may get back less than the amount invested. Forecasts are assessed up until the latest available data for portfolio holdings that were acquired.

These dynamics demonstrate that, for the generality of the companies in the portfolio, the issue is not that they are failing to deliver the expected growth, but that the market has de-rated them. Our portfolio companies continue to deliver strong earnings and demonstrate robust fundamentals. However, the composition of recent Index returns appears significantly misaligned and out of balance.

As a result of these trends, our portfolio now trades at the lowest relative valuations we have seen since the strategy's inception at GuardCap in mid-2014, while our companies grow earnings at over two times the MSCI World Index rate.

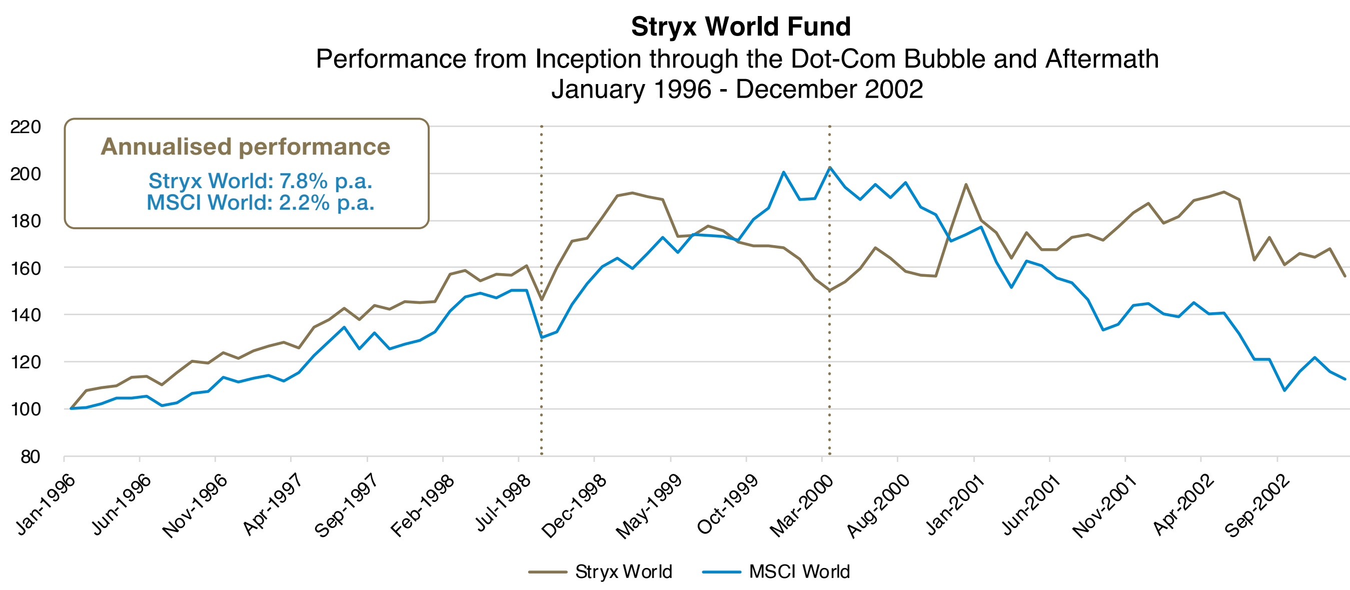
The chart below depicts the PE ratio of our portfolio relative to the MSCI World Index over time. While the long-run average PE ratio premium of our portfolio since inception has been 45-50%, it currently stands at 16%.



Source: GuardCap Asset Management September 2025 – This graph is produced for illustrational purposes only. Portfolio inception 31/07/2014.

Historic Precedent[1]

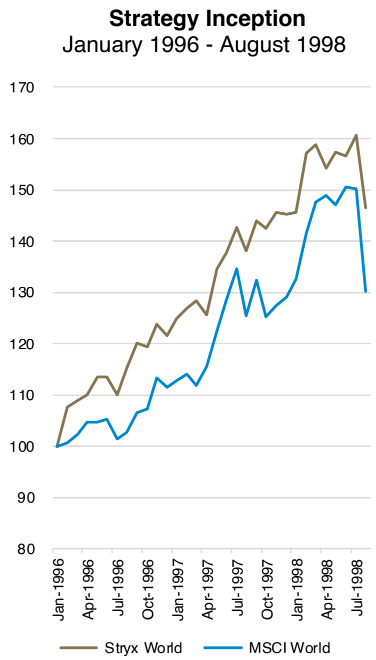
The GuardCap Global Equity Strategy operated through the 1999-2002 dotcom boom and subsequent crash. After significant underperformance during the 1999 mania, the fund strongly outperformed during the market collapse that followed.



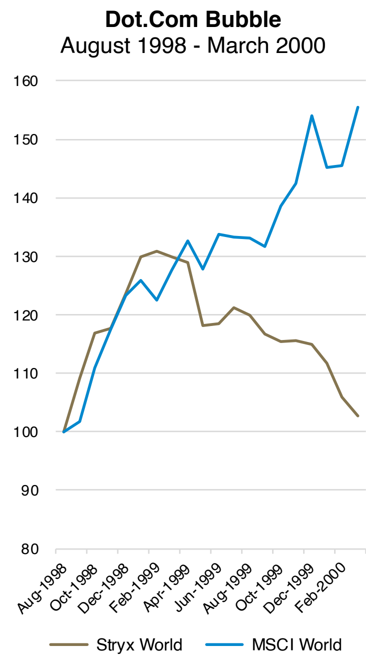
Source: GuardCap Asset Management - The performance of the Stryx World Growth Fund shown herein has been converted from the CHF-hedged share class net of fees into USD for illustrative purposes in order to compare against the MSCI World (USD, Net). Performance figures are based on historical data, reflect past results, and are not necessarily indicative of future performance. Currency conversions and hedging may have impacted returns, and results may differ from those experienced by investors in the original share class.

[1] The performance referred to in this section relates to a global equity strategy managed by the current portfolio managers at a previous firm prior to the establishment of the GuardCap Global Equity Strategy in 2014. This performance does not represent the performance of the GuardCap Global Equity Strategy or any product managed by GuardCap Asset Management Limited. The portfolio managers were primarily responsible for the investment decisions and the strategy employed during the period referenced. The investment philosophy, research process, and portfolio construction approach used at that time are substantially the same as the process employed today.

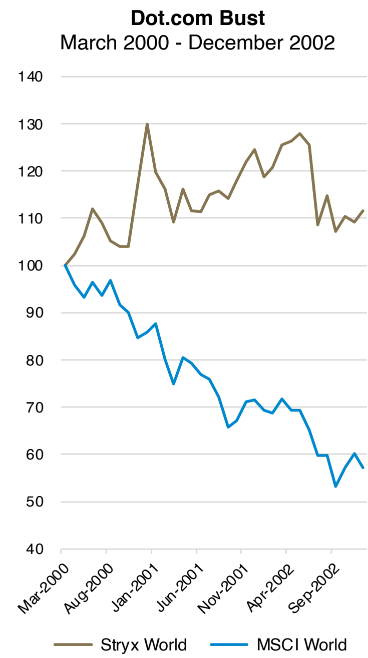
Annualised performance
Stryx World: 15.9% p.a.
MSCI World: 10.8% p.a.



Annualised performance
Stryx World: 1.7% p.a.
MSCI World: 32.2% p.a.



Annualised performance
Stryx World: 4.1% p.a.
MSCI World: -18.3% p.a.



Source: GuardCap Asset Management - The performance of the Stryx World Growth Fund shown herein has been converted from the CHF-hedged share class net of fees into USD for illustrative purposes in order to compare against the MSCI World (USD, Net). Performance figures are based on historical data, reflect past results, and are not necessarily indicative of future performance. Currency conversions and hedging may have impacted returns, and results may differ from those experienced by investors in the original share class.

Today's fund managers lived through that period, applying the same investment philosophy that protected capital when speculation ended and fundamentals reasserted themselves.

Quality and Diversification When It Matters Most

The GuardCap Global Equity Strategy has underperformed its benchmark because we maintain high conviction and invest only where earnings and cash flow outcomes can be predicted with reasonable accuracy over five years. For AI infrastructure builders, such certainty doesn't exist.

But investment markets have faced similar speculative episodes before. The dotcom era saw disastrous share price declines, even though some companies did emerge to dominate the digital economy—eventually benefiting from infrastructure that seemed overbuilt for years.

We believe that our strategy offers a much needed opportunity genuinely to diversify away from the risks now involved in a typical index investment:

- Valuations offer projected returns unseen since inception.
- Quality characteristics remain robust (near-absence of leverage; ROIC 28%; Operating margins of 29%).
- The strategy as always been characterised by its reduced earnings sensitivity to GDP growth – so it has provided strong outperformance in past years when the outlook for GDP growth has deteriorated.
- EPS growth rates approach three times the MSCI World Index.
- Limited reliance on continued AI infrastructure spending and absence of elevated market valuations/exposure to AI-ready companies with large unique proprietary datasets. The strategy will benefit from the advent of AI, without investing in companies facing huge up front CAPEX requirements.

We believe that, while current market dynamics may persist for the near term, there is now strong potential strategy to outperform the MSCI World Index given our low valuations, superior earnings growth, extremely strong quality characteristics and lack of exposure to companies investing heavily in AI infrastructure where the returns on that investment are largely unknowable.

For investors with long-term horizons and portfolios heavily exposed to passive vehicles or big tech concentration, the GuardCap Global Equity Strategy offers something increasingly difficult to find: genuine diversification built on fundamental analysis, predictable earnings growth, and attractive valuations.

Our strategy's strongest outperformance periods occur in down markets. For investors concerned about concentration risk and stretched valuations, now represents an opportunity to rebalance toward quality, predictability, and valuation discipline.

Given current market structure and elevated risks, the risks of future problems in the US and other global economies, and the extremely attractive valuations and projected returns of the stocks in our strategy, we believe current valuations offer a highly attractive entry point for long-term investors.

Important Information

References & Further Reading

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