GUARDCAP

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Passive Investing, Market Concentration, and the Case for Quality

Executive Summary

Equity investors have long treated broad market indices as diversified, efficient, and neutral. This paper argues that all three assumptions now deserve scrutiny. Passive investing started off as a low-cost way to get diversified exposure to a stock market, without any need to analyse individual companies. This approach remains appealing to numerous investors. Nevertheless, the scale of passive investing has changed the nature of the debate and has become an important source of distortion affecting market structure.

Three issues will be addressed in this paper:

1. **Has passive investing structurally changed the market?**
2. **What are the consequences for investors?**
3. **What could reverse these conditions?**

If the benchmark has become more concentrated, more valuation-insensitive and more dependent on a narrow group of index heavyweights, investors need a portfolio built on different principles. We believe our investment approach is well positioned for today's market environment. It is benchmark-agnostic, fundamentals-driven, quality-focused, and valuation-disciplined.

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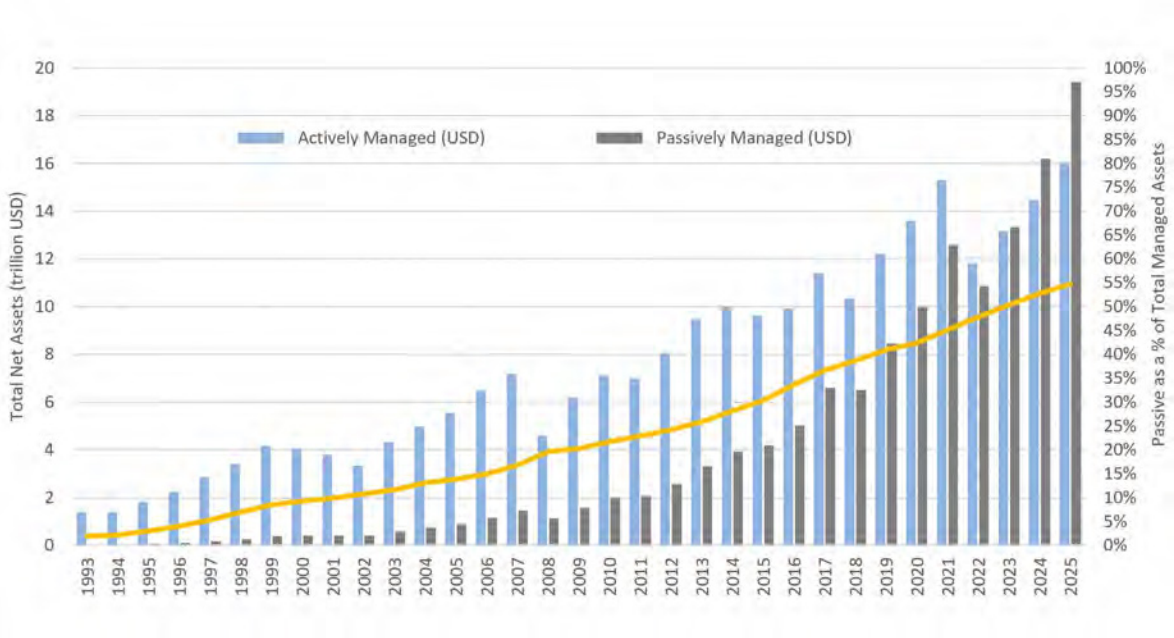
1. Has Passive Investing Structurally Changed the Market?

In our view, the answer is yes. Passive investing has not eliminated fundamentals, nor has it single-handedly created today's market concentration. But at its current scale, it has changed how markets function. **A larger share of equity demand is now rules-based, benchmark-sensitive, and less directly connected to valuation.**

The mechanism is straightforward. In most broad equity indices, capital is allocated by market capitalisation. The larger a company becomes, the larger its index weight becomes, and the more of each incremental passive dollar it receives. That flow is not allocated according to valuation, balance-sheet strength, business quality, or prospective return. It is allocated according to size.

This does not make passive investing irrational. But at sufficient scale, its impact is no longer neutral. Market-cap-weighted flows can reinforce companies whose share prices have already risen, increasing their index weights and directing still more capital towards them. **Passive investing therefore does not merely reflect concentration; it can amplify it.**

Figure 1: Passively Managed Assets Surpassed Actively Managed Assets

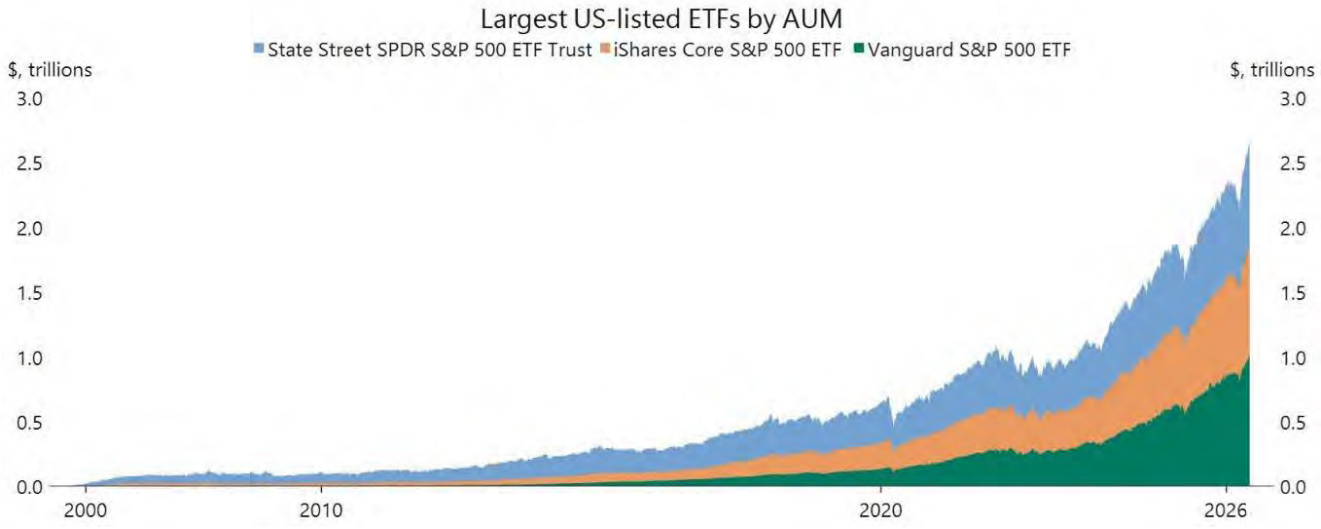


Source: Morningstar, Fund Flows: Insights on Investor Sentiment & Market Trends (19 February 2026).

That scale is now impossible to ignore. Passive funds surpassed active funds in total net assets in 2023 and have continued to gain share. By the end of 2025, passively managed funds accounted for more than 55% of net assets across the U.S. mutual fund and ETF universe (Morningstar, 2026). Even this likely understates passive's true influence. Chinco and Sammon (2024) argue that, once internally indexed institutional portfolios and closet indexing are included, the effective passive share of the U.S. equity market is materially higher.

The shift is also clear at the fund level. Vanguard's S&P 500 ETF, VOO, recently became the first ETF to exceed $1 trillion in assets, while the three largest passive S&P 500 funds now hold more than $2.6 trillion combined (Slok, 2026).

Figure 2: Assets of the Three Largest S&P 500 ETFs



Source: Bloomberg, Macrobond, Apollo Chief Economist (2026)

In an October 2025 *MarketWatch* column, Brett Arends called this the "dumbest stock market in history." The phrase is provocative, but it captures a legitimate concern: **a growing share of equity capital is now allocated automatically, irrespective of company fundamentals.**

Academic research supports this concern. Jiang, Vayanos and Zheng (2025) find that **passive flows can disproportionately raise the prices of the largest firms, particularly those already overvalued.** Their work suggests passive investing can reinforce the rise of mega-firms by lowering their cost of capital and making the firm-size distribution more skewed.

The natural objection is that active investors should arbitrage this away. In theory, valuation-sensitive capital should lean against valuation-insensitive flows. In practice, that arbitrage is limited by risk budgets, tracking-error constraints, client pressure, career risk, and the commercial reality that being right too early can look wrong for a long time.

Haddad, Huebner, and Loualiche (2025) estimate that **the rise of passive investing over the past 20 years has made demand for individual stocks 11% more inelastic.** In other words, as passive ownership has grown, stock-level demand has become less responsive to valuation. Other investors respond, but not enough to fully neutralise the mechanical effect of passive flows.

Gabaix and Koijen's (2021) "inelastic markets" hypothesis makes a related point: equity prices can be sensitive to flows when investor demand is not perfectly elastic. While their work is not specific to passive investing, it helps explain why large, price-insensitive flows can move prices when passive vehicles dominate allocation.

Taken together, the evidence suggests passive investing has structurally changed the market. It has made equity demand less valuation-sensitive, reinforced the leadership of the largest companies, and increased the importance of flows in price formation. Passive investing has not replaced fundamentals, but it has changed how fundamentals are reflected in prices. Investors can no longer treat it as a neutral phenomenon. **As more capital follows index rules, markets become more flow-sensitive, more benchmark-driven, and more concentrated in the largest companies.**

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2. The Consequences of Passive Market Distortion

If passive investing has changed market structure, the key question is what this means for investors who rely on it.

Broad market-cap-weighted benchmarks are no longer as neutral, diversified, or low-risk as they appear. Investors may think they are buying broad market exposure, but in practice they are increasingly exposed to a narrow group of benchmark heavyweights, many linked to the same themes and capital-spending cycles.

2.1 Benchmark concentration has become the new market risk

The most visible consequence is concentration. Major equity indices are meant to provide different exposures, such as global equities, U.S. large caps, or technology leadership. Yet the top 9 holdings in the MSCI World, S&P 500, and Nasdaq 100 are identical as of 30 June 2026. These benchmarks are meant to represent different slices of the equity market, but at the top they increasingly express the same trade.

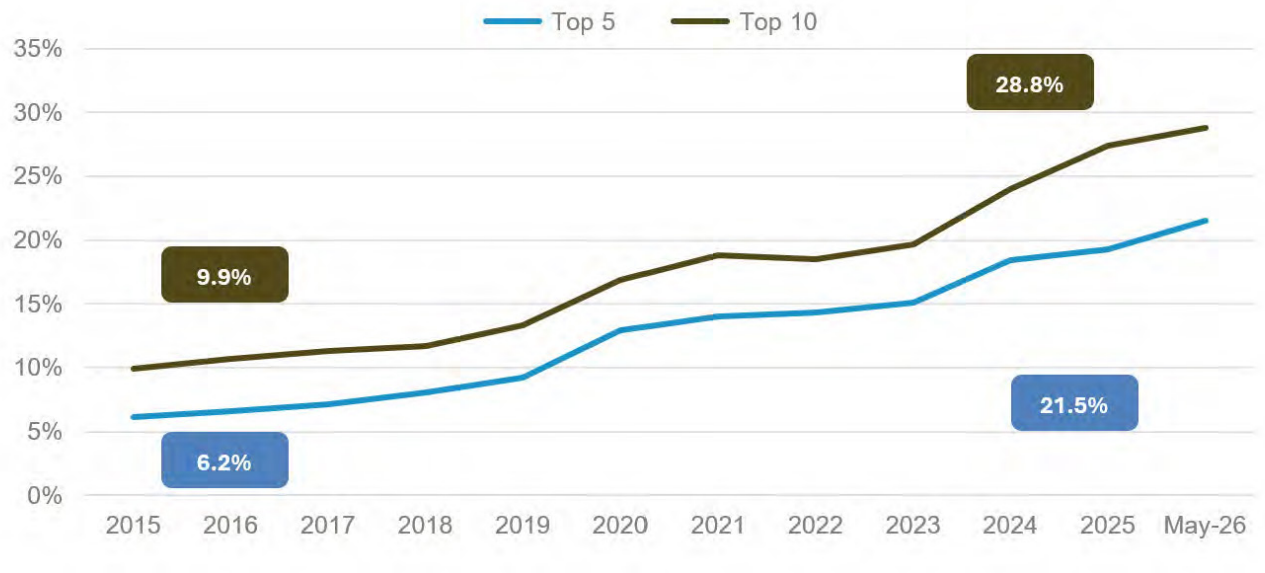
Figure 3: The top 9 holdings across major indices as of 3 June 2026

	MSCI World	S&P500	Nasdaq 100
Nvidia	5.5%	8.0%	8.2%
Apple	5.1%	7.0%	7.2%
Alphabet	4.2%	5.8%	6.3%
Microsoft	3.4%	4.9%	5.0%
Amazon	2.7%	3.8%	4.2%
Broadcom	2.4%	3.5%	3.6%
Meta	1.5%	2.1%	2.9%
Micron	1.4%	1.9%	5.3%
Tesla	1.3%	1.8%	3.3%
Top 9	**27.5%**	**38.8%**	**46.0%**
Effective number of holdings	**90**	**46**	**32**

Source: MSCI, S&P, Invesco. Data as of 3 June 2026. Effective number of holdings is the inverse Herfindahl index (1 / ˜ wi^2) of constituent weights. References to specific securities are for illustrative purposes only.

The overlap is striking. Even during earlier periods of extreme concentration, including the TMT boom, the largest holdings across these benchmarks were not identical. Today, investors can move from global equities to U.S. equities to the Nasdaq and still find the same companies dominating the portfolio.

Figure 4: MSCI World Index Concentration has tripled



Source: GuardCap, as of 31 May 2026. Data is shown for illustrative purposes only and is based on internal analysis and external market sources (Eikon). Data shown are based on the MSCI World Index. Index concentration levels are historical and do not represent the performance of any specific investment.

The number of stocks in an index can give a misleading impression of diversification. A better measure is the inverse Herfindahl index, which calculates the **effective number of holdings** by showing how many equally weighted stocks would be needed to match the index's actual concentration. It is calculated by squaring each company's weight in the index, summing those figures, and taking the reciprocal.

On this basis, the S&P 500 may hold around 500 companies, but its effective diversification is closer to a portfolio of 46 equally weighted stocks. The MSCI World Index, despite its global reach and over 1300 constituents, behaves like a portfolio of only 90 equally weighted stocks.

2.2 The benchmark is not neutral

Passive investing is often described as neutral because it removes discretionary stock selection. But investors have not escaped active decision-making; they have delegated it to the index methodology.

Index construction still shapes outcomes. Inclusion rules, exclusions, weighting methods, rebalancing schedules, and committee decisions all influence what investors own. Some choices are mechanical, others involve judgement. Either way, investors are not simply buying "the market." They are buying a specific construction of it, with growing exposure to the assumptions embedded in the index methodology.

2.3 Concentration creates hidden benchmark risk

The issue is not concentration itself. Concentration can be sensible when it is deliberate, researched, and supported by an attractive risk-reward profile. The problem is benchmark concentration is mechanical. It owns more of a company because it has become larger, not because its prospective returns have improved. It does not judge whether margins are sustainable, expectations have run ahead of fundamentals, governance is sound, or valuation already discounts too much growth. **Investors can therefore end up adding exposure to richly valued companies just as future returns become less attractive.**

There is also a second-order effect. If passive flows lift the largest firms disproportionately, they may contribute not only to a more concentrated index, but to a more concentrated economy. **Higher valuations lower the cost of equity and make shares a stronger acquisition currency**, giving dominant companies more flexibility to invest, acquire competitors or adjacent technologies, and defend their position. Passive investing may therefore not simply reflect the rise of mega-firms; at sufficient scale, it may help entrench them.

High valuations can also shape corporate behaviour. Jensen's (2005) work on the agency costs of overvalued equity argues that inflated share prices can incentivise management to sustain the valuation rather than allocate capital on purely economic grounds. That can encourage aggressive acquisitions, excessive investment, favourable guidance, or spending designed to validate the market narrative. Today, this matters because the largest index constituents have both the valuation support and capital-market permission to spend heavily on AI infrastructure.

2.4 The AI trade has become embedded in passive exposure

The AI trade and infrastructure boom are not the first-order consequence of passive investing; concentration is. But in today's market, the two are closely linked. As AI-related mega-cap companies have outperformed, their index weights have risen. As those weights have risen, they have received a larger share of passive flows. **Passive investing has therefore helped embed the AI trade into broad market exposure.**

This matters because the AI build-out is increasingly capital-intensive, requiring heavy spending on semiconductors, data centres, cloud infrastructure, power, cooling, and related assets. The capex is immediate and measurable, while the monetisation remains uncertain. Enterprise adoption, pricing power, productivity gains, willingness to pay, and long-term free-cash-flow conversion are still open questions.

That creates an asymmetry. If capex keeps rising but revenue, margins, or returns on invested capital fail to follow, the market may reassess not only individual AI beneficiaries, but also the benchmarks now heavily exposed to them. AI does not need to fail for investors to be disappointed. Expectations only need to have moved too far ahead of economic reality.

In a concentrated benchmark, that interdependence becomes a source of risk. The scale of the exposure is striking: Goldman Sachs estimates that AI-linked companies accounted for around 45% of the S&P 500 as of April 2026, the highest concentration of any single thematic cluster in the index's history.

2.5 The Passive Paradox: Free-Riding on Active Price Discovery

Passive investing contains an important paradox. It offers low-cost access to market prices, but it does not itself make those prices informative. That role depends on active investors, analysts, and fundamental managers who research companies, assess valuations, compare opportunities, and allocate capital. Passive investors benefit from this work without directly paying for it.

Grossman and Stiglitz (1980) formalised this paradox: if prices already reflected all available information, investors would have little incentive to bear the cost of gathering it. Some investors must therefore be compensated for price discovery. Consistent with this, Sammon (2025) finds that higher passive ownership is associated with less firm-specific information being incorporated into prices ahead of earnings announcements. **If too much capital chooses to free-ride on active price discovery, fewer investors are left doing the work that makes prices informative.**

2.6 The market's shock absorbers are weakening

Valuation-sensitive capital is one of the market's natural shock absorbers, resisting prices when they detach too far from fundamentals. Passive investing weakens this mechanism because passive capital does not ask whether a security is cheap or expensive.

As more capital is allocated mechanically, prices can become more exposed to benchmark-level flows. Fundamentals still matter, but they may be overwhelmed for periods by flows driven by allocation rules rather than valuation. This can reinforce momentum on the way up and amplify stress on the way down, leaving markets more vulnerable to sharper valuation resets, larger draw-downs, and stronger boom-bust cycles.

Empirical evidence supports this concern. Ben-David, Franzoni and Moussawi (2018) find that stocks with higher ETF ownership exhibit higher volatility. Höfler, Schlag and Schmeling (2023) similarly find that rising passive ownership is associated with weaker market quality, including higher volatility and poorer price discovery.

Green, Krishnan, and Sturm (2026) attempt to quantify this fragility. They model markets in which passive ownership makes demand less elastic and the pull back towards fundamentals weakens. Their key finding is non-linear: index volatility begins to rise sharply once passive share reaches 65%, and can accelerate dramatically at exceedingly high passive shares, around 90%. These thresholds should not be read as forecasts, as real-world stabilisers would likely intervene before extreme outcomes. But the direction is important: **as price-insensitive capital grows, markets may become disproportionately less able to absorb shocks.**

2.7 Active managers have faced a structural headwind

Passive investing has created a structural headwind for active managers. Part of that headwind is fee pressure. But the more important challenge has been performance pressure.

As benchmarks have become more concentrated in a small group of mega-cap winners, active managers who are underweight those companies have been penalised, even when their investment reasoning was fundamentally sound. The challenge has been especially acute for managers who are unwilling to chase the most expensive and crowded areas of the market.

When the largest stocks become more expensive but continue to outperform, refusing to chase them can create significant benchmark-relative underperformance. **The more concentrated the benchmark becomes, the more relative risk an active manager takes by being different.**

Recent evidence supports this headwind. Studying U.S. equity funds from 1984 to 2024, Unterberg (2026) finds that average active-fund alpha deteriorated significantly after 2010. In addition, the historical link between high Active Share and outperformance reversed: the most benchmark-agnostic funds began underperforming the most index-like funds. Unterberg attributes this not to weaker manager skill, but to flow-induced demand, as active outflows forced managers to sell overweight positions while passive inflows bid up index constituents. Once this flow effect is controlled for, the negative Active Share-performance relationship disappears. The implication is that the penalty for being different was a mechanical by-product of the passive transition, not evidence that fundamental research stopped working.

The performance pressure is accompanied by a risk-management issue. Much of today's market leadership rests on the assumption that the current wave of AI capex will translate into durable long-term returns, yet that outcome remains uncertain. Building a portfolio heavily exposed to companies whose success depends on that assumption introduces significant concentration risk for active managers.

Together, these create pressure on active managers to become "closet indexers." A manager who wants to limit tracking error may feel compelled to own the largest benchmark constituents, even when prospective returns are unattractive.

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3. What Could End the Current Regime?

The current regime does not need to end in a crash. It could end through broader market leadership, a valuation reset, rotation away from mega-cap AI stocks, or renewed interest in overlooked quality companies. We see five potential catalysts.

3.1 AI-related disappointment

The most direct catalyst would be a challenge to the AI narrative. AI does not need to fail; investors only need to question the speed, cost, or profitability of the current build-out.

Disappointment could come from slower enterprise adoption, weaker data centre demand, pricing pressure, rising competition, weaker earnings, or poor returns on AI-related capital expenditure. Physical constraints could amplify the risk. Data centres require substantial amounts of power, water, land, cooling, and grid connectivity. If power availability, permitting delays, or infrastructure bottlenecks slow expansion, growth assumptions across the AI supply chain could be challenged.

This risk is also supported by research questioning the pace of AI's economic payoff. Acemoglu (2025) estimates that AI's macroeconomic impact, while real, is likely to be modest, with total factor productivity rising by about 0.66% over a decade. That is well below the more optimistic assumptions implied by parts of today's capital-spending cycle.

This is the danger of concentration. In a diversified market, disappointment in one theme can be absorbed. In today's market, where leadership is narrow and AI-linked companies dominate major benchmarks, disappointment in the leaders can quickly become disappointment in the market.

3.2 A more fragile economic backdrop and reversal of passive flows

A weaker economic backdrop could challenge the current regime by slowing or reversing the passive flows that have supported market leadership.

Passive flows are often treated as permanent and one-directional, but they depend on household savings, retirement contributions, risk appetite, and liquidity conditions. Slower U.S. growth, consumer pressure, sticky inflation, higher rates, or tighter liquidity could all reduce the steady flow of capital into equity funds.

A market supported by continuous inflows can look stable until those flows weaken. When money leaves, the largest constituents become the largest source of forced selling. In a concentrated market, passive outflows would fall disproportionately on the same mega-cap leaders that benefited most from the inflow cycle.

3.3 Mega-IPO supply meets investor resistance

The coming wave of mega-IPOs could become a major test of the current market structure. Companies such as SpaceX, OpenAI, and Anthropic could, depending on final valuations, could collectively account for about $4 trillion of market capitalisation. SpaceX's Nasdaq debut on 12 June 2026, raising $85.7 billion after the over-allotment and trading above $2 trillion in market value shortly after listing, illustrates the scale of potential supply.

At the same time, AI infrastructure spending is pushing even cash-generative hyperscalers towards external financing. Alphabet recently raised $84.75 billion in equity to fund AI infrastructure, while Meta has raised debt and explored further financing options.

This creates a potential supply overhang. Public markets may need to absorb large amounts of new AI-linked equity at high valuations, while broad indices are already heavily exposed to the same theme. The issue is not whether these companies are innovative, but whether investors remain willing to underwrite successive waves of equity at valuations that leave little room for disappointment.

It also raises a question for passive investors: should index-linked capital provide automatic demand for private-market exits at any price? If these companies enter major indices quickly, passive vehicles may become significant buyers regardless of valuation, governance, or free-float constraints. But if investors push back, the assumption of automatic demand becomes less certain.

Early signs of resistance are already visible. Danish pension fund AkademikerPension reportedly excluded SpaceX, citing valuation and governance concerns, including voting control under Elon Musk. One example does not make a trend, but it highlights a broader risk: **investors may become less willing to accept automatic index inclusion when valuation, governance, or control structures appear unattractive.**

3.4 Political intervention: taxation and state control of AI assets

Another catalyst is political rather than economic. If AI becomes central to national competitiveness, public services, and labour-market outcomes, governments may become less willing to leave its economic gains entirely in private hands. This need not mean outright nationalisation; the more likely route is fiscal. As AI shifts corporate dependency away from human labour and towards proprietary software and data centres, profits that once funded salaries are retained as margins and accrue to the shareholders who own the AI infrastructure and intellectual property. That creates an obvious political tension. If AI-driven productivity gains are large, visible, and concentrated, governments may seek to socialise part of the return through higher corporate taxation, automation levies, excess-profit taxes, or other redistributive mechanisms.

For investors, the significance is that this challenges the AI trade, and the case for passive exposure to it, from a different direction. It does not require AI to disappoint technologically or commercially; it requires only that AI becomes so important, profitable, or disruptive that governments seek a larger claim on its returns. In a market where AI-linked companies dominate the major benchmarks, even a modest but durable reassessment of future tax rates, regulatory freedom, or the private sector's ability to retain AI rents could be enough to trigger rotation away from the current leaders.

3.5 Market rotation to Quality

The final catalyst could be more constructive: a rotation in market leadership. **Many quality companies o**utside the dominant AI mega-caps now **offer strong fundamentals at attractive valuations.** They may have durable competitive advantages, high returns on capital, resilient cash flows, and solid long-term growth prospects, but have been overlooked because they are not large benchmark weights or obvious AI beneficiaries.

If valuations begin to matter again, or investors seek differentiated sources of return, capital could rotate towards these overlooked quality companies.

This would be the most attractive catalyst for active managers. It would reward stock selection, valuation discipline, and fundamental research, while exposing the limitations of passive strategies tied to yesterday’s winners.

4. Beyond Passive Concentration: The Case for GuardCap Global Equity

We believe the answer to today's market distortion is not simply "active management," but a specific kind of active management: benchmark-agnostic, fundamentals-driven, quality-focused, and valuation-disciplined. The benchmark is concentrated by market capitalisation. Our portfolio is concentrated by conviction.

4.1 Benchmark-agnostic and concentrated

A benchmark-agnostic portfolio offers flexibility that market-cap-weighted exposure does not. It allows us to own the largest companies when fundamentals and valuation justify it and avoid them when they do not.

GuardCap Global Equity is a high-conviction portfolio of 20 to 25 companies with durable long-term growth in earnings and cash flows, supported by valuation discipline. Our concentration is deliberate. Companies must earn their place in the portfolio through our 10 Confidence Criteria.

Figure 5: Key Features of GuardCap's Investment Approach

20-25 Stocks	**Concentrated Portfolio** Very few companies meet our criteria
90-95% Active Share	**Benchmark Agnostic** Limited overlap with conventional market cap indices
81 Years in Business on Average	**Defensive Growth Style** Companies held in the strategy are well established yet are positioned for growth in a changing world
Low Carbon	**ESG Integrated Throughout Process** Morningstar ESG and Low Carbon Ratings
>20 Secular Sub-Trends	**Diversification Via Secular Trends** Exposure to multiple secular-growth themes
85% Downside Capture	**Downside Protection** Strong outperformance in down markets
10-20% Historic Turnover Range	**Low Turnover** Long holding periods and low turnover mean lower trading costs

As at 31 March 2026. Based on the GuardCap Global Equity Fund in USD vs. MSCI World Index since inception, 10 December 2014. Morningstar ESG Risk Rating™ as of 30 April 2026; Morningstar Low Carbon Designation™ data (as of 30 April 2026). © Morningstar. All rights reserved. Please see the last slide for full disclaimer.

4.2 Fundamentals intact: returns should follow business performance

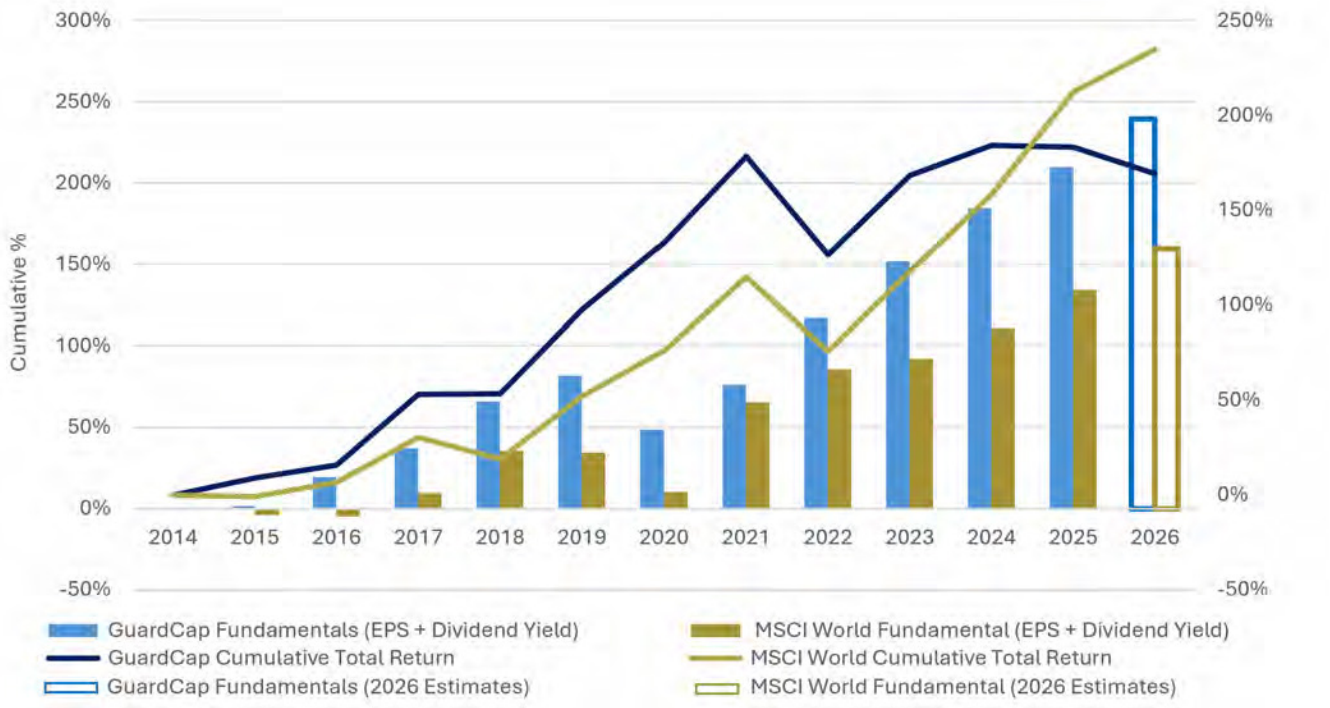
Our portfolio companies have continued to deliver strong earnings growth, resilient operating performance, and healthy cash generation. In our view, the market has not fully recognised this in recent valuations, but the underlying businesses have continued to compound.

Figure 6 compares cumulative fundamental growth, measured by earnings growth plus dividend yield, with cumulative total return. For the portfolio, fundamentals and long-term returns have remained connected. The companies have delivered the growth, even if recent market pricing has not rewarded it.

The index tells a different story. Since 2023, the MSCI World price line has run well ahead of its own earnings growth, meaning much of recent index performance has come from sentiment and multiple expansion rather than fundamentals.

We do not believe such gaps persist indefinitely. Historically, prices and fundamentals tend to reconnect. The key point is that this is not a value trap: our companies' earnings and cash flows have continued to grow while valuations have compressed. The de-rating has come from lower multiples, not weaker businesses. Looking forward, the fundamental outlook remains strong. Based on our internal five-year forecasts, the weighted portfolio average is expected to deliver 7.5% revenue CAGR and 11.7% EPS CAGR, reinforcing the view that recent underperformance reflects a valuation disconnect rather than a deterioration in business momentum.

Figure 6: Cumulative Fundamental Growth versus Return



Source: GuardCap Asset Management, data as at 31 March 2026. GuardCap Global Equity Strategy (net of fees, USD). Past performance is not a reliable indicator of future results.

4.3 Quality intact: the numbers still show a clear advantage

Quality should be visible in the financial characteristics of the companies owned. Across the measures that matter most to us, the portfolio maintains a clear and consistent advantage over the index.

This is evident in profitability, returns on capital, balance-sheet strength, and cash conversion. Gross margins are 64.9% versus 32.7% for the MSCI World, while operating margins are 29.5% versus 14.3%. ROIC is 28.5% versus 20.6%, or 15.7% for the index excluding Nvidia. The portfolio also has lower leverage, with net debt to free cash flow of 0.7x versus 2.6x, stronger cash conversion at 113.5% versus 94.8%, and lower capital intensity, with capex to sales of 4.2% versus 9.2%.

These characteristics matter in the current environment. Companies with high margins, strong cash generation, low leverage, and high returns on capital can reinvest through cycles, defend profitability, and compound value without relying on external capital. That is the quality we want to own: businesses with durable advantages, pricing power, disciplined capital allocation, and resilience in more difficult economic conditions.

Figure 7: Portfolio Quality Metrics Versus the Index

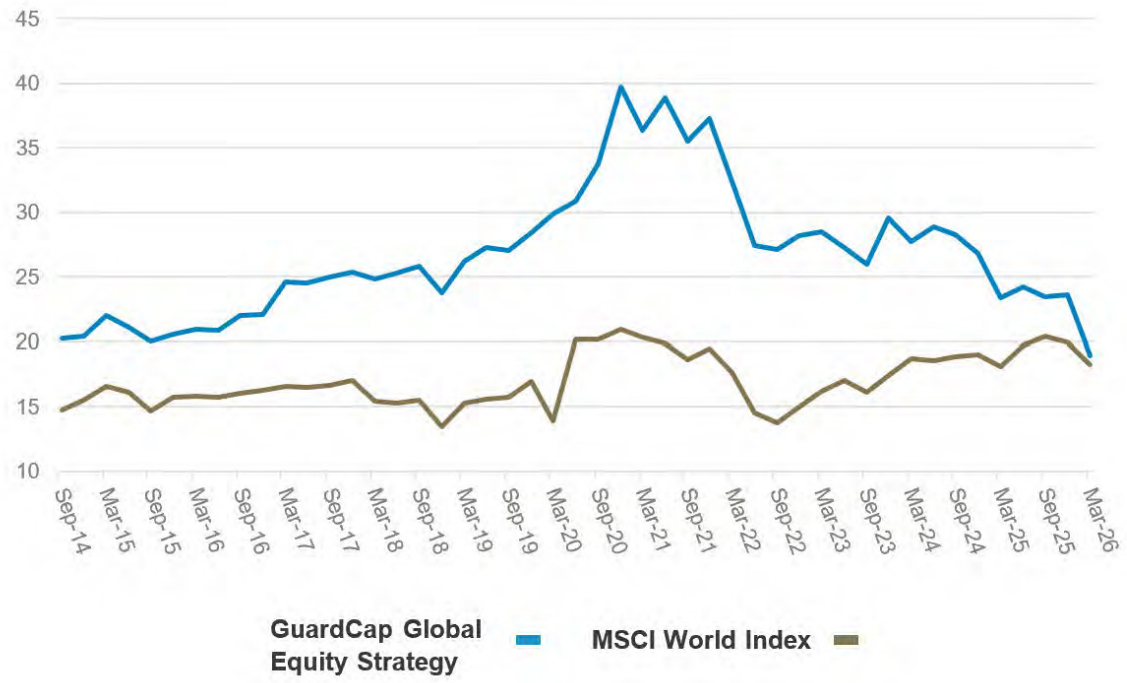
Source: GuardCap 31 March 2026 –GuardCap Global Equity Fund in USD (net of fees). For illustrative purposes only. Net Debt/FCF shown as median, other metrics are weighted averages, adjusted for outliers where applicable. MSCI World ex Nvidia shown to illustrate the impact of a single constituent on index-level ROIC. Past performance is not a reliable indicator of future results.

4.4 Valuation dislocated: quality without overpaying

The market has re-rated while our strategy has de-rated. We believe that divergence is central to the opportunity. Figure 8 shows a clear gap opening from late 2022. The MSCI World has re-rated and now trades above its long-term average, while the strategy has continued to de-rate and trades significantly below its own historical average.

Historically, we would expect a portfolio of higher-quality, faster-growing businesses to trade at a premium to the market. Today, those businesses trade at roughly similar valuations to the broader index. That is the opportunity. We believe the fundamentals are intact, the quality is intact, but the price investors are being asked to pay has changed. Today, high-quality businesses with attractive earnings growth are available at valuations that, in our view, do not reflect their long-term compounding potential.

Figure 8: Strategy Valuation Relative to the Index



Source: GuardCap, data as of 31 March 2026. Forward P/E ratios are based on consensus earnings estimates. Portfolio inception 31 July 2014. For illustrative purposes only. Portfolio characteristics and valuation metrics are subject to change and should not be relied upon as an indication of future performance. Forecasts and estimates are not reliable indicators of future results and actual outcomes may differ materially.

Conclusion

The market has changed structurally. Passive investing is now large enough to influence price formation, flow sensitivity, and concentration. Market-cap-weighted indices are less diversified than many investors assume, with the same top companies dominating major benchmarks and the AI trade deeply embedded in broad passive exposure.

The catalyst for change could come from AI disappointment, a weaker economic backdrop, a reversal in passive flows, mega-IPO supply meeting investor resistance, or a broadening of market leadership. The precise trigger is uncertain. We believe the vulnerability is clear.

Investors do not need to abandon equities, technology, or innovation. But they do need to be more deliberate about what they own. In a market increasingly concentrated, flow-sensitive, and dependent on a narrow group of winners, true diversification requires looking beyond the index.

That is the case for quality: staying invested in equity markets while relying less on flows, index mechanics, and the continued dominance of yesterday's winners.

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