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Mitigating Benchmark Concentration with Portfolio Activation

By: *Global Opportunity* | July 23, 2024

In 2022, we highlighted in our publication, "Opportunity Optimum,"¹ how investors' flight to perceived safety amid post-pandemic market volatility had increased benchmark concentration. Two years later, that risk appears even more pronounced as the top 15 companies have increased from 20% to 26.5% of the MSCI ACWI Index since 2022.² This increased benchmark concentration has been driven primarily by investor enthusiasm for megatrends of generative artificial intelligence (AI) and weight loss drugs (GLP-1).

Notably, 64.6% of MSCI ACWI's year-to-date returns are attributable to the top 10 contributors, led by the parabolic increase in NVIDIA's market capitalization, joining Apple and Microsoft as the world's \$3 trillion dollar companies. Meanwhile, the other c. 2,900 stocks account for the remaining 35.4% of returns.³

Corporate Issuer	Contribution to Benchmark Return (%)	Percentage of Benchmark Return (%)
NVIDIA	2.74	24.2
Alphabet ⁴	1.06	9.4
Microsoft	0.76	6.7
Amazon	0.58	5.1
Meta	0.52	4.6
Eli Lilly	0.40	3.5
Taiwan Semiconductor Manufacturing Company	0.38	3.3
Apple	0.34	3.0
Broadcom	0.32	2.8
Novo Nordisk	0.21	1.8
Others c. 2,900 stocks	4.01	35.4
MSCI ACWI	11.30	100

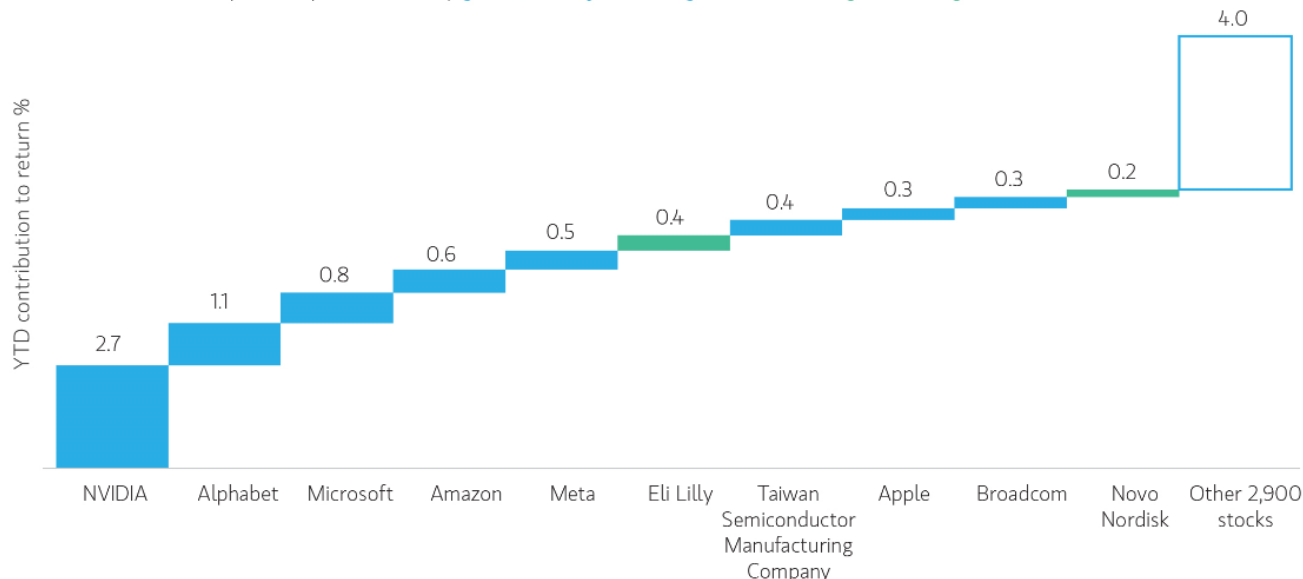
Source: FactSet, MSCI. Data as of June 30, 2024.

For active managers of concentrated portfolios, this has been a difficult market to navigate, as benchmark performance is increasingly driven by a select few names. However, this concentration amplification effect may work similarly on the way down as on the way up. The same theme that adds trillions in market value may be first to lose a comparable amount!

Therefore, we continue to caution against reliance on passive exposure to indices globally. As bottom-up stock pickers, we believe it's essential to take a first principles approach to investing. We believe a better strategy may be to actively invest in opportunities outside the largest names, by focusing on fundamentally sound businesses with higher revenue and cash flow outlooks, diversified end markets and attractive valuations.

Top 10 Companies Contributing Outsized Returns to MSCI ACWI (% contribution YTD as of 6/30/2024)

26.5% of MSCI ACWI is concentrated in top 15 companies and 64.6% of year-to-date global equity returns are attributable to the top 10 companies, driven by [generative artificial intelligence \(AI\)](#) and [weight loss drugs \(GLP-1\)](#).



Source: FactSet, MSCI. Data as of June 30, 2024.

Bottom line: While today's increased market concentration can be challenging for investors to navigate, it also creates opportunities for active managers to uncover strong companies outside the largest names.

¹ https://www.morganstanley.com/im/publication/insights/articles/article_opportunityoptimum_us.pdf

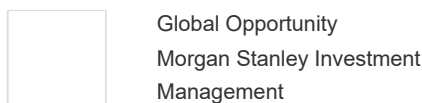
² Source: Factset, MSCI. Data as of June 30, 2024.

³ Source: Factset, MSCI. Data as of June 30, 2024.

⁴ Includes Alphabet Inc. Class A and Class C shares.

MSCI ACWI Index is an unmanaged free-float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed and emerging markets. Unless otherwise stated, index returns do not reflect the effect of any applicable sales charges, commissions, expenses, taxes or leverage, as applicable. It is not possible to invest directly in an index. Historical performance of the index illustrates market trends and does not represent the past or future performance of any strategy or investment product. For informational purposes and does not constitute an offer or a recommendation to buy or sell any particular security. MSCI indexes are net of foreign withholding taxes. Source: MSCI. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

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