

MENTENOVA

CONCENTRATION RISK SERIES | AUGUST 2026

One benchmark, different views.

Part 3 of the Concentration Risk Series

How global managers are navigating concentration in the MSCI ACWI

Prepared by **Mentenova Manager Research Team**

21 August 2026

IN THIS DOCUMENT

Contents

Global equity markets have become increasingly concentrated around mega-cap technology and the expanding AI ecosystem, leaving investors more exposed to a common economic theme than traditional sector and geographic labels may suggest. Yet concentration itself is only part of the investment challenge. The more important question is how to respond to it. In the third instalment of our concentration risk series, we examine four distinct approaches taken by global equity managers — from deliberately stepping away from concentrated areas of the market to selectively participating in them — and explore why Mentenova believes resilience comes not from choosing one view, but from intelligently blending different investment philosophies into a portfolio designed to perform across changing market environments.

AT A GLANCE

Key takeouts from this research piece

- Concentration goes beyond the obvious names.
- There is no single view of concentration.
- Different philosophies win in different environments.
- Manager dispersion can be a feature, not a flaw.
- Mentenova engineers the blend.

From local to global 03
Reflection or distortion? 04
One risk, four perspectives 05
Why dispersion is a feature, not a flaw. 06
The Mentenova solution: engineering the blend 07
Conclusion: four answers, one portfolio 08



SECTION 01

From local to global

This is the third piece in our series on concentration risk. Part 1 set out the structural foundations, mapping the extent of concentration across both domestic and global equity markets and concluding that concentration, while elevated, need not be feared, but understood, contextualised and actively managed. Part 2 then examined how local equity managers respond to concentration in the Capped ALSI, where precious metals have become the dominant force, and showed how blending their differing responses produces more consistent outcomes.

We now turn the same lens on global equities. Here the dominant force is not precious metals but mega-cap technology and the artificial intelligence (AI) ecosystem that now anchors the MSCI All Country World Index (ACWI) and its developed-market counterpart, the MSCI World. As Part 1 established, the structural picture is only half the story. What ultimately shapes investor outcomes is how managers respond to that structure and on that question, the managers we work with do not agree. This piece is about those differing answers, and why we believe the most resilient portfolio is built by combining them rather than choosing between them.

The shape of global concentration

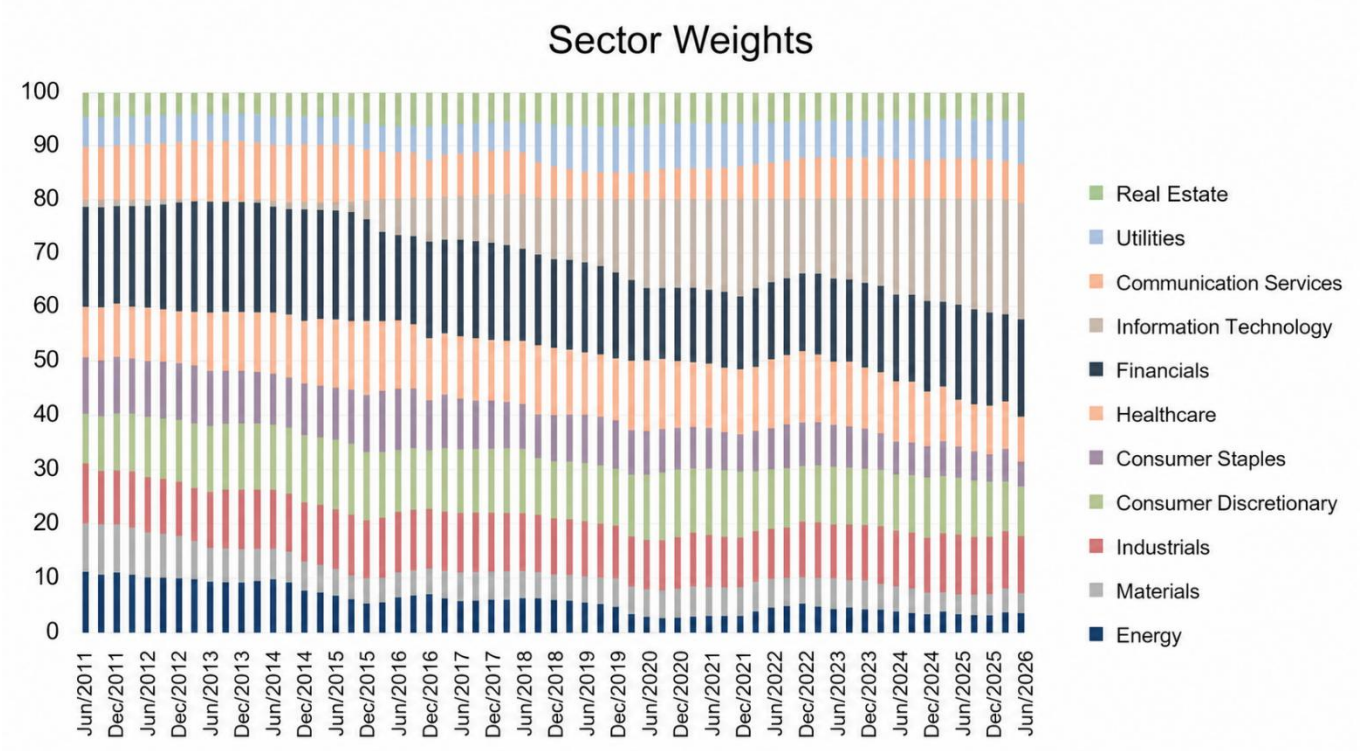
The global concentration story has two engines. The first is mechanical: a cap-weighted index automatically gives the largest, fastest-growing companies the largest weights, so a handful of mega-caps can come to dominate. The second is thematic: the AI earnings supercycle has concentrated capital, optimism and valuations into a narrow band of AI-linked names. The result is that an unusually large share of the index's risk and return now flows through a small group of companies, factors and themes.

> **Apparent diversification can be deceptive - three holdings across three regions can still be a single bet on AI.**

Crucially, this concentration runs deeper than the obvious technology names. By some estimates, close to half of the index's economic footprint is now linked, directly or indirectly, to the AI ecosystem, from the hyperscalers and semiconductor makers, to the industrials building data-centre capacity, to the financials sitting in the capital-cycle orbit of AI-related deal activity. This is why apparent diversification can be deceptive: a portfolio holding a Korean technology company, a European industrial and a US utility may look spread across regions and sectors yet still represent a single bet on AI if all three ultimately depend on the same capital cycle. When confidence in AI profitability wavers, these positions can fall together.

On one point every manager agrees: this concentration is real, it is material, and it cannot be passively accepted. Where they part company is on what to do about it.

FIGURE 1: QUARTERLY SECTOR WEIGHT CHANGES OVER TIME



Source: Bloomberg

SECTION 02

Reflection or distortion?

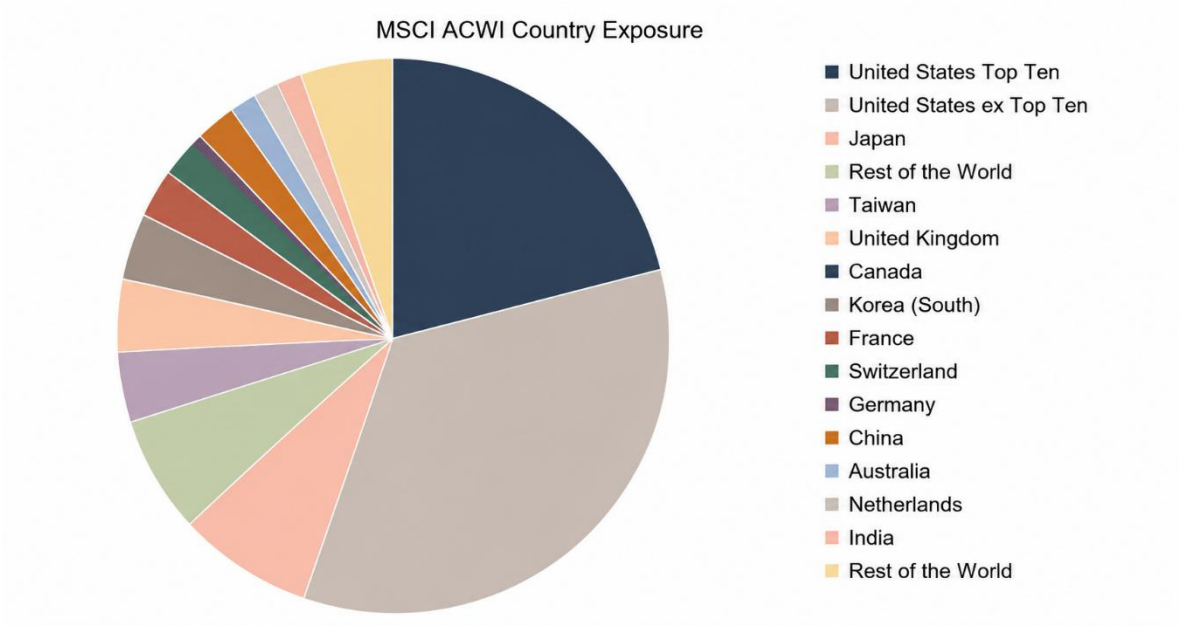
Underlying the disagreement is a deeper question: does today's concentration reflect a genuine opportunity, or distort the benchmark?

One camp sees a genuine structural shift, comparable to the rise of the internet in the late 1990s or financials in the mid-2000s. On this reading, AI has real, cross-sector potential to reshape productivity and earnings, so it is natural that a new cohort of large, high-growth companies dominates the index, and concentration simply reflects capital following a transformative theme.

The other camp sees distortion. On this view the index has become a high-conviction bet on a single theme, with valuations already pricing in years of strong capital expenditure and returns. Weights have expanded as much through multiple expansion and investor flows as through earnings, pushing the benchmark beyond what fundamentals alone would justify and leaving it vulnerable if the narrative shifts.

Most managers sit somewhere between these poles, and the distinction matters for how they build portfolios. As Part 2 noted, it also matters for how they should be judged: the concentration embedded in a client's chosen benchmark is a policy decision the client owns; the gap between a manager's natural style and that benchmark is misfit risk that belongs to the hiring decision; and only the deliberate positions a manager takes are true active risk. Keeping these separate is the foundation of judging any manager fairly.

FIGURE 2: REGIONAL BREAKDOWN AS OF JUNE 2026



Source: iShares MSCI ACWI Holdings

SECTION 03

One risk, four perspectives.

Faced with the same concentrated benchmark, the managers we work with respond in four broadly different ways, each rooted in a different investment philosophy. Set side by side, they form a spectrum, from treating concentration as a risk to step away from, to treating it as an opportunity to participate in selectively.

1 Quality-focused managers

At one end sit the quality-focused managers, who treat concentration as a risk to step away from. They hold deliberate, sizeable underweights to the most crowded names and are willing to avoid entire areas of the market where they judge quality to be deteriorating, building instead around durable compounders. The portfolio decouples from the index, sometimes to the point of near-zero correlation with it and is designed to look very different from the benchmark by intent.

2 Relative-value managers

Next are the relative-value managers, who manage concentration through valuation discipline. They decompose portfolio risk into stock-specific and systematic components, stay close to neutral on the largest names rather than betting heavily against them, and diversify across economic exposures. They accept meaningful tracking error, controlled through disciplined position sizing and sector and regional limits and typically run at a valuation discount to the benchmark that offers a cushion if the largest names de-rate.

3 Systematic, multi-factor managers

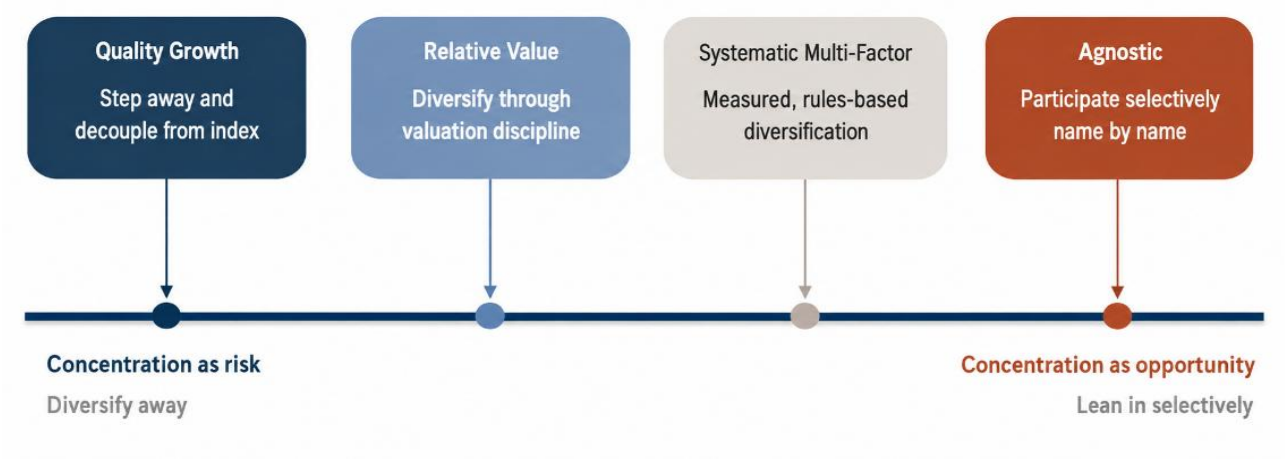
Then come the systematic, multi-factor managers, who treat concentration as a measurable distortion to be managed within rules. They trim the most expensive mega-caps while blending rewarded factors such as value, momentum and quality, and constrain active positions at the stock,

sector and country level. The aim is measured, risk-controlled diversification that reduces dependence on any single name without abandoning participation altogether.

4 Benchmark-agnostic stock-pickers

At the other end sit the **benchmark-agnostic stock-pickers**, who manage concentration name by name. Rather than avoiding the largest constituents wholesale, they take a bottom-up view on each, holding the AI-related names they have conviction in and underweighting those they do not. For them, concentration is partly a genuine reflection of opportunity, to be navigated through selection rather than avoided on principle, though they too now manage their underweights more actively, recognising that a single mega-cap can move the whole portfolio.

FIGURE 3: REGIONAL BREAKDOWN AS OF JUNE 2026 MANAGER PHILOSOPHY SPECTRUM: CONCENTRATION AS RISK VS OPPORTUNITY



Source: Mentenova Investment Team.

SECTION 04

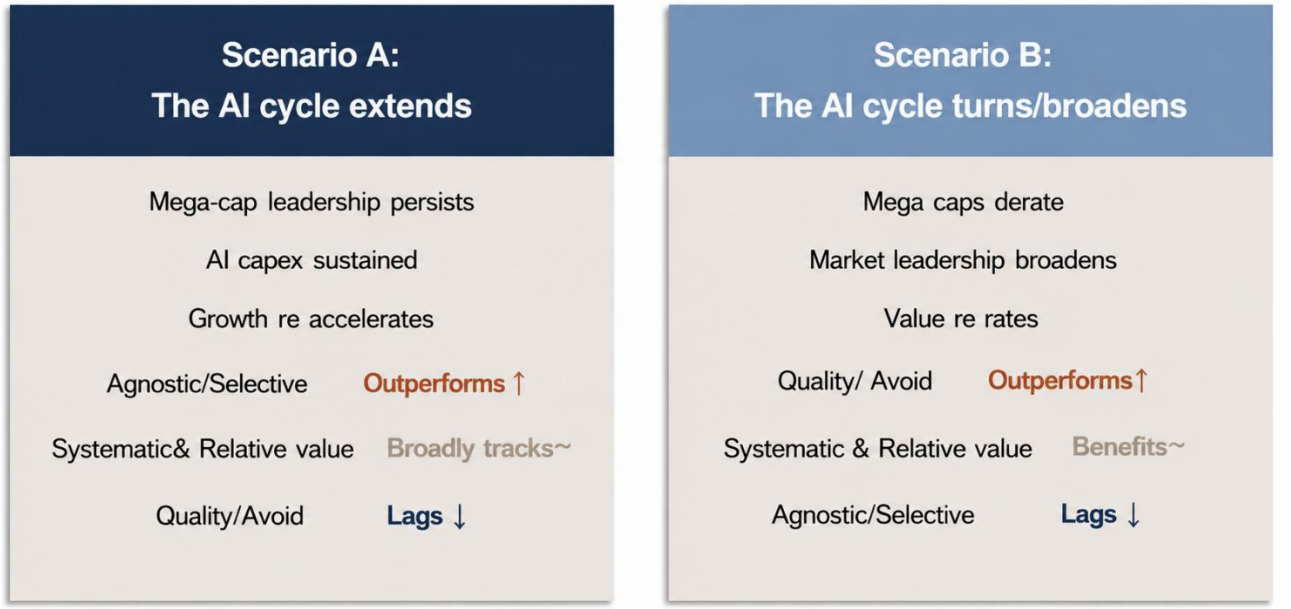
Why dispersion is a feature, not a flaw.

These four answers translate into very different portfolios, and therefore very different performance in different environments. That dispersion is not a flaw in the system; it is the system working as intended. Distinct philosophies, applied with conviction, should produce distinct outcomes.

The clearest way to see this is through the cycle. If AI leadership extends and the largest names keep compounding, the agnostic stock-pickers and the more benchmark-neutral managers participate most fully, while the quality-focused avoiders lag, potentially by a wide margin. If instead the largest names de-rate and market leadership broadens, the picture inverts: the avoiders and the valuation-disciplined managers outperform and preserve capital, while the most index-like or concentrated positions absorb the larger drawdown.

No single approach wins in every environment. Performance leadership rotates with the cycle, which is precisely why relying on any one answer leaves a portfolio exposed to being on the wrong side of that rotation.

FIGURE 4: SCENARIO ANALYSIS: PERFORMANCE ACROSS AI-CYCLE OUTCOMES



Source: Mentenova Investment Team.

SECTION 05

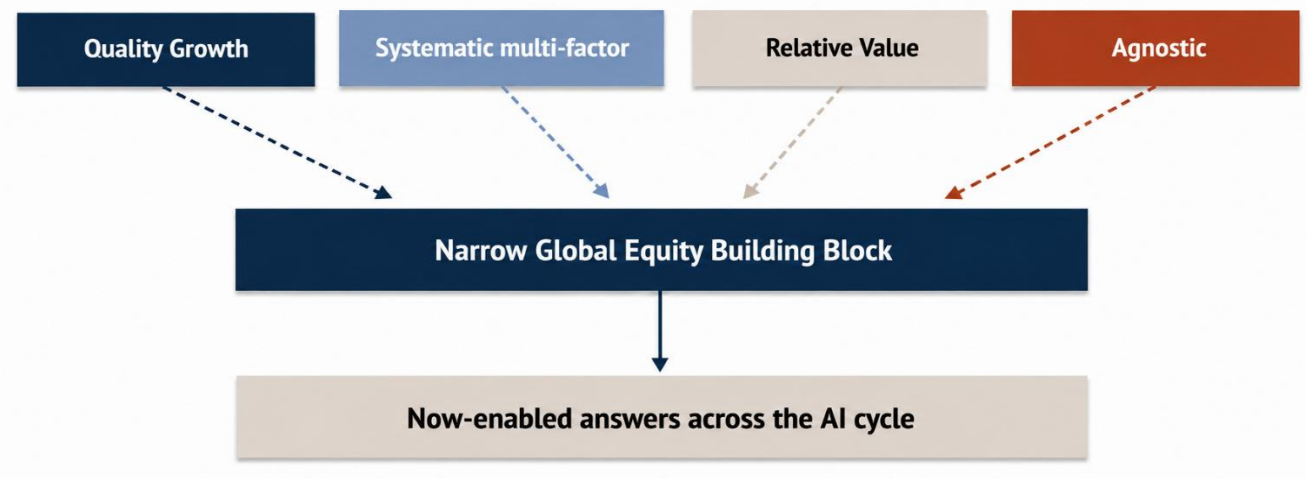
The Mentenova solution: engineering the blend

This is where our role begins. We do not try to identify the single "correct" view of concentration, because no such view holds across all environments. Instead, we deliberately combine managers whose philosophies respond differently to the same risk.

The logic is straightforward. The quality-focused and valuation-disciplined managers protect capital if the AI rally fades or reverses. The agnostic stock-pickers and benchmark-neutral managers keep the portfolio participating if mega-cap leadership persists. The systematic, multi-factor approach provides a diversified, valuation-aware core that leans on no single theme. Combined, these philosophies mean that whichever way the AI cycle turns, some part of the portfolio is positioned to benefit and the whole is far less dependent on a single outcome than any one manager would be alone.

Our global equity building block puts this into practice. As set out in Part 1, where the benchmark has increased its technology weighting, we have deliberately moderated exposure, tilting the portfolio toward Value, High Yield and Quality positioning that benefits from a rotation away from pure growth while adding resilience through periods of volatility.

FIGURE 5: BLENDING DIVERGENT RESPONSES INTO ONE PORTFOLIO



Source: Mentenova Investment Team.

SECTION 06

Conclusion: four answers, one portfolio

Concentration in the global benchmark is, at the same time, a genuine reflection of the AI opportunity and a distortion that tethers the index to a single story. Holding both truths at once is uncomfortable and it is precisely that discomfort that defeats any one-dimensional response. The quality manager who steps away is right; so is the stock-picker who leans in. They simply cannot both be right at the same point in the cycle.

So, our task is not to crown a winner among these views, but to hold them together. Blended, four partial answers become something none of them is alone: a portfolio that does not need the AI cycle to break in any particular direction to do its job. Each philosophy will have its season. Balance, not avoidance, remains the principle and our discipline is to ensure the portfolio is never staking everything on one of them.

IN CONCLUSION

The index has staked everything on a single story.

Our role is to ensure our clients never have to.



MENTENOVA

Mentenova (Pty) Ltd

3rd Floor, Oxford and Glenhove 2, 114 Oxford Road, Rosebank

Tel: 011 447 7716 · Email: info@mentenova.co.za

www.mentenova.co.za

Reg no: 2012/027837/07 · FSP no: 43937

Mentenova holds a category I and II FSP license and is authorised to provide financial services in the form of advice and/or intermediary services.