

Mindfields

Concentration, diversification and
the evolution of investment markets

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INTRODUCTION

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Concentration has become one of the defining investment themes of the current market cycle. Global equity markets are increasingly dominated by a relatively small number of countries, sectors and companies, leading investors to question whether traditional approaches to diversification remain as effective as they once were. The growing influence of the United States within global benchmarks, the dominance of mega-cap technology companies and the rise of artificial intelligence (AI) have all contributed to concentration levels among the highest observed in modern market history.

Yet concentration itself is not a new phenomenon. Throughout history, capital markets repeatedly concentrated around the dominant economic opportunities of each era. Leadership has shifted from industrials, commodities and financials to technology, digital platforms and AI. What changes is not the existence of concentration, but rather the companies, sectors and economic drivers that sit at its centre. The challenge for investors is therefore not simply understanding concentration today, but how concentration evolves and how portfolios should respond to it.

This raises a more important question for long-term investors:

“
*how can portfolios remain exposed
to the opportunities created by market
leadership without becoming dependent
on any single source of return?*
”

This collection of research articles explores concentration from three complementary perspectives. The first article examines the rise of global equity concentration and demonstrates how a growing share of global market returns and risks are being driven by a small number of countries, sectors and companies. It highlights the increasing dominance of the United States within global benchmarks, the growing influence of technology and AI-related businesses, and the emerging concentration challenges within both developed and emerging markets.

The second article turns to the South African experience. South African investors have historically operated in one of the world's most concentrated equity markets and therefore provide a useful historical perspective on today's global concentration debate. The article traces the evolution of the Johannesburg Stock Exchange over the past five decades, from gold and mining dominance to financials, industrials, resources, and ultimately globally diversified businesses such as Naspers and Prosus. The analysis demonstrates that concentration has remained a persistent characteristic of the South African market even as market leadership, sector exposures and sources of earnings have changed dramatically over time.

The third article considers how concentration can be addressed within an outcome-based investment framework. Rather than treating concentration as a risk that should necessarily be eliminated, the article examines how diversification across asset classes, regions, currencies, investment styles, strategies and managers can reduce dependence on a single source of return. The emphasis shifts from diversifying holdings to diversifying the underlying drivers of risk and return.

Concentration and risk are not synonymous. Concentration becomes a portfolio risk when too much of the outcome depends on a single source of return. Historically, periods of concentration have often coincided with significant innovation, economic transformation and wealth creation. At the same time, history demonstrates that market leadership is rarely permanent. The objective, therefore, is not to avoid concentration altogether, nor to predict when today's market leaders will be replaced. It is to understand where concentration resides, how it evolves, and whether the portfolio is sufficiently diversified across the underlying drivers of long-term outcomes.

Ultimately, concentration is a natural feature of capital markets; diversification is the mechanism by which investors manage their dependence on it. Understanding the interaction between the two is increasingly important as market leadership becomes more concentrated, more global and more influential.



The rise of global concentration

01

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Global equity markets are experiencing one of the most concentrated periods in modern history. The United States now accounts for approximately 70 to 75% of the MSCI World Index, while a small group of mega-cap technology stocks contributes a disproportionate share of index returns and risk.

Yet concentration is not unique to developed markets. Emerging market indices are increasingly dominated by Taiwan and South Korea, reflecting the growing importance of semiconductors and artificial intelligence (AI) infrastructure.

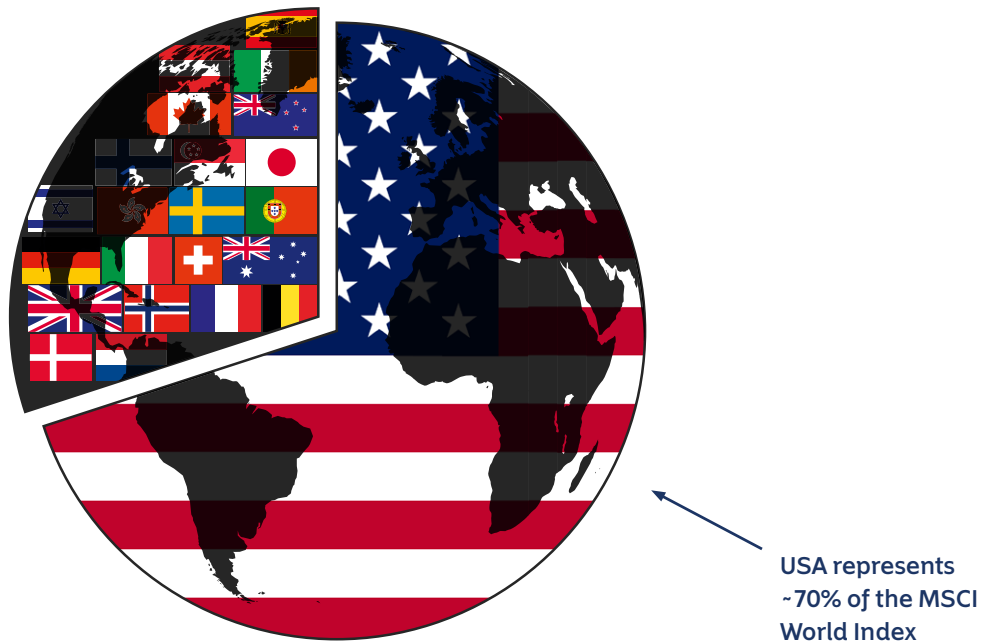


Figure 1

For South African investors, global diversification no longer means simply going offshore, but looking beyond the global benchmark.

For many years, South African investors viewed offshore investing as synonymous with diversification. Today, that assumption deserves closer scrutiny. With the US representing roughly three-quarters of the MSCI World Index, investors tracking traditional developed-market benchmarks are implicitly making a substantial allocation to a single country.

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*Simply moving capital offshore
may therefore exchange one
concentration risk for another.*

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MSCI World geographic exposures over time

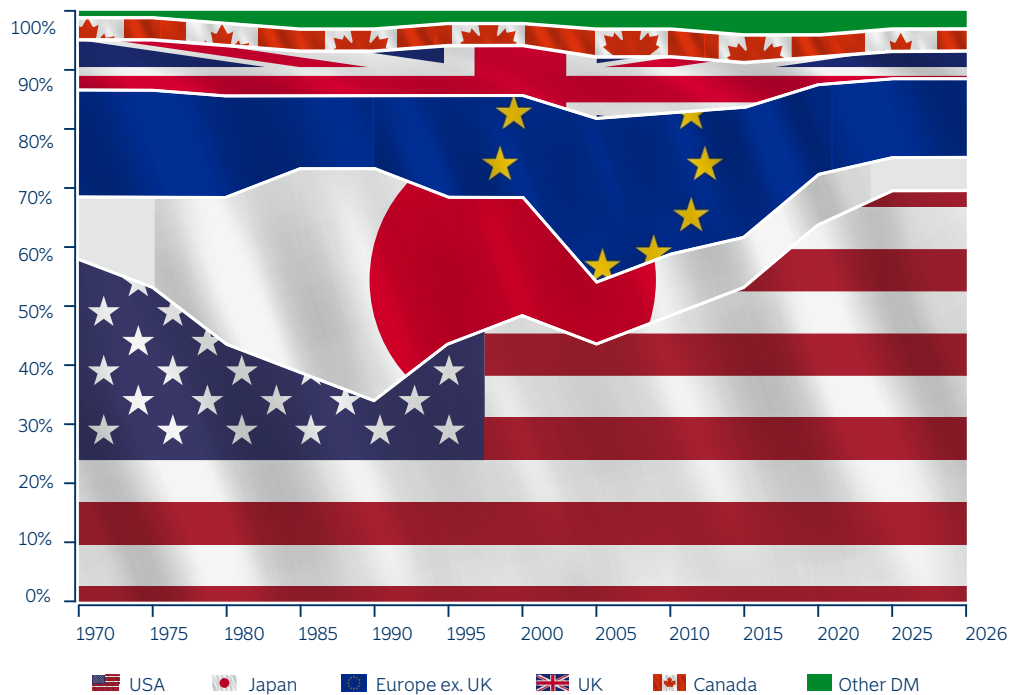


Chart 1 source: Factset and Momentum Investments

History shows that market concentration is not unusual, but a feature of markets. During different periods, leadership has shifted between the Nifty Fifty stocks of the 1970s, Japan in the 1980s, technology shares in the late 1990s and commodity-focused businesses during the 2000s. The dominant country, sector or theme of one decade is rarely the dominant source of returns in the next.

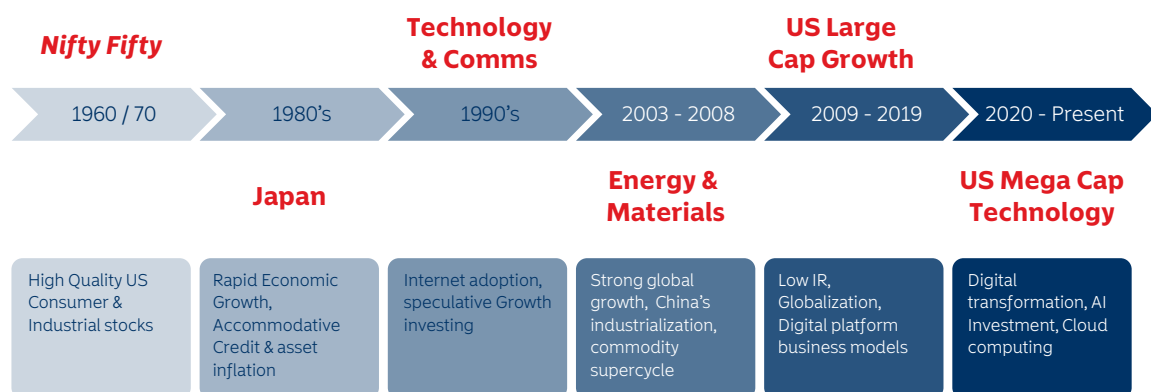


Figure 2

South African investors understand concentration better than most as we have operated in one of the world's most concentrated equity markets for decades. Historically, a relatively small number of mining houses, financial institutions and more recently companies such as Naspers and Prosus have accounted for a significant share of market performance. As a result, local investors understand that true diversification requires more than holding a broad market index. The challenge facing investors today is therefore familiar; only the location of the concentration has changed.

Sector concentration

While investors today are mostly focused on company concentration, sector concentration has been evolving for decades. In the 1970s, global equity markets were dominated by energy, industrials and consumer-oriented businesses, reflecting an economy driven by manufacturing, commodities and physical infrastructure. Through the 1980s and 1990s, Financials became increasingly important as deregulation, globalisation, and expanding capital markets boosted the sector's weight within global indices. The late 1990s technology boom marked the first major shift toward technology, although that dominance proved temporary following the bursting of the dot-com bubble.

MSCI World Sector exposures

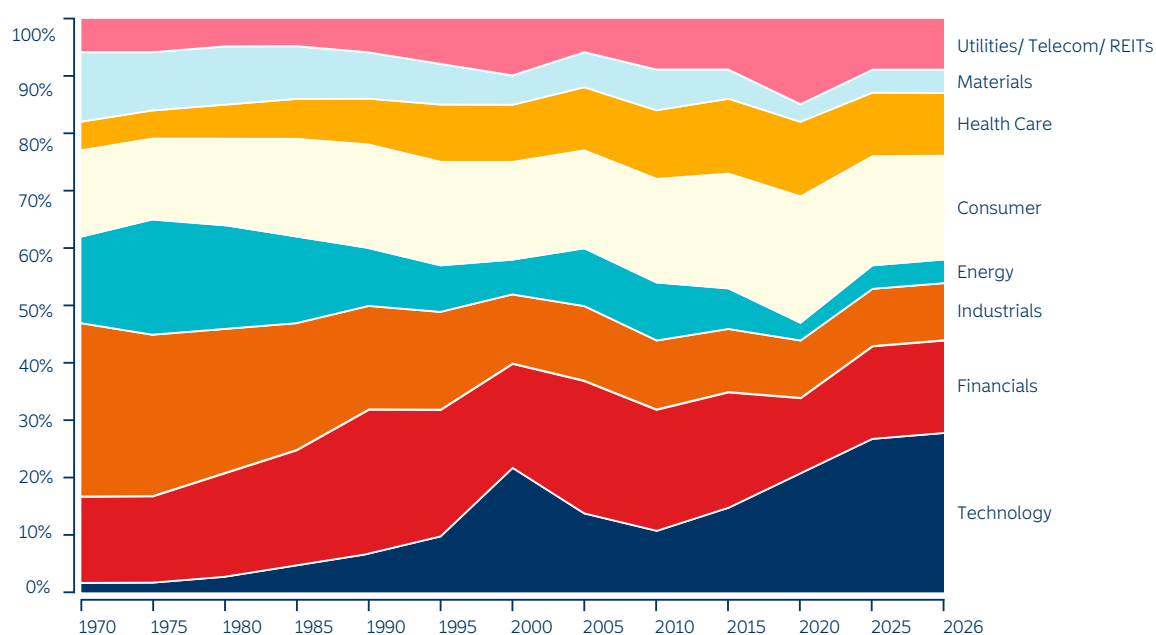


Chart 2 source: Factset and Momentum Investments

What is striking in chart 2 is the resurgence and subsequent dominance of technology after 2010. Following the Global Financial Crisis, technology's share of global indices increased steadily, accelerating significantly after 2020 as digital platforms, cloud computing, semiconductors and AI-related businesses became the primary drivers of earnings growth. By 2026, technology represents the single largest sector in the MSCI World Index, accounting for almost 30% of the benchmark, while traditional sectors such as energy, materials and utilities represent a far smaller share of global market capitalisation. The chart demonstrates that today's concentration story is not simply about a handful of companies, but about the growing dominance of a single sector that sits at the centre of multiple structural growth themes.

The rise of the US mega caps

A handful of technology-focused companies, including Nvidia, Microsoft, Apple, Amazon, Alphabet, Meta, Tesla and Broadcom, have become dominant forces within global indices. The top ten holdings in the MSCI World Index now represent the highest concentration levels observed in modern history. While these businesses are highly profitable and cash-generative, investors must recognise that today's winners may not necessarily remain tomorrow's winners.

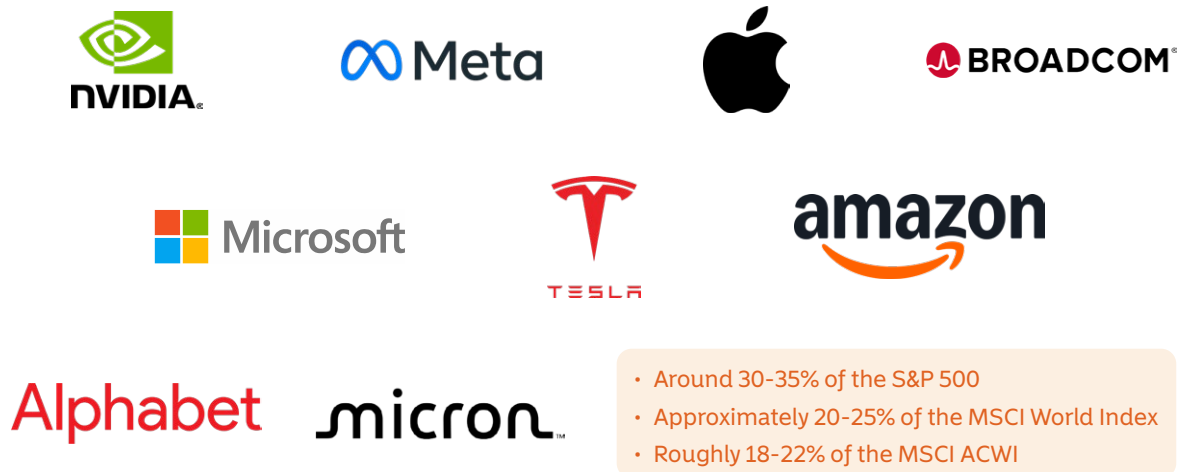


Figure 3

Chart 3 tracks the collective weight of the ten largest companies in the MSCI World Index from 1970 to 2026. It provides a useful historical perspective on how market leadership and concentration have evolved over multiple economic, technological and market cycles.

Three distinct observations emerge:

- 1** Concentration in shares is not a new phenomenon. The top 10 companies consistently represented between 9% and 13% of the index from the 1970s through the 1990s, before rising sharply during periods of major technological disruption.
- 2** Concentration typically coincides with transformational economic themes. Significant increases occurred during the late-1990s technology bubble and again during the current AI and digital platform era.
- 3** Today's concentration exceeds previous market extremes. The top 10 companies now account for approximately 25% to 26% of the MSCI World Index, exceeding levels reached during the peak of the dot-com era.

Average weight of Top 10 largest shares

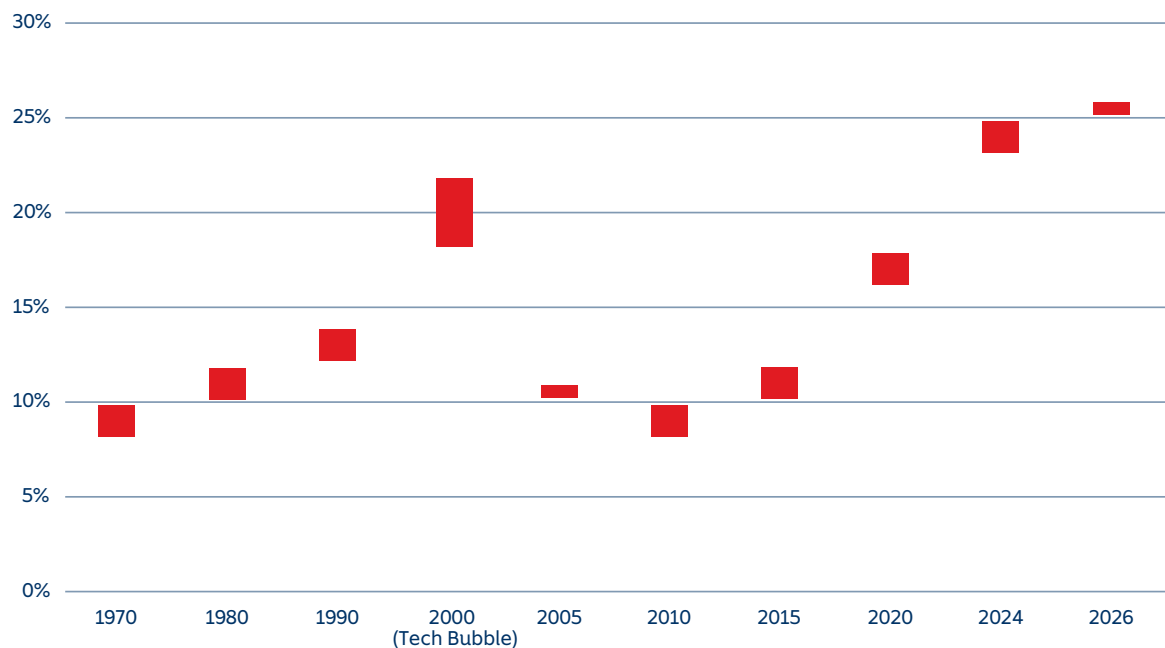


Chart 3 source: Factset and Momentum Investments

One of the central questions surrounding today's market concentration is whether it reflects excessive investor optimism or genuine economic leadership. Unlike previous periods such as the late-1990s technology bubble, today's market leaders are highly profitable, generate substantial free cash flow and occupy dominant competitive positions in industries benefiting from powerful structural growth trends. The revenues, earnings and balance sheets of companies such as Microsoft, Nvidia, Apple, Amazon and Alphabet are materially stronger than those of many market leaders from previous speculative periods.

However, concentration does not need to be a bubble to present investment risk. Current valuations increasingly assume that these companies will continue to capture a large share of future economic value generated by AI, cloud computing and digital transformation. The challenge for investors is therefore not whether these businesses are fundamentally strong, but whether future outcomes can continue to exceed already elevated expectations. History suggests that transformative technologies often create enormous economic value, but the ultimate beneficiaries are not always the companies investors initially expect.

As a result, one of the most important observations from current market conditions is that risk is not distributed in the same way as capital. **Risk is more concentrated than market capitalisation.** Mega-cap technology shares contribute a significantly larger share of total portfolio risk than their benchmark weights suggest. Investors, therefore, need to understand where risk resides, not simply where capital is invested.

Risk concentration in MSCI World

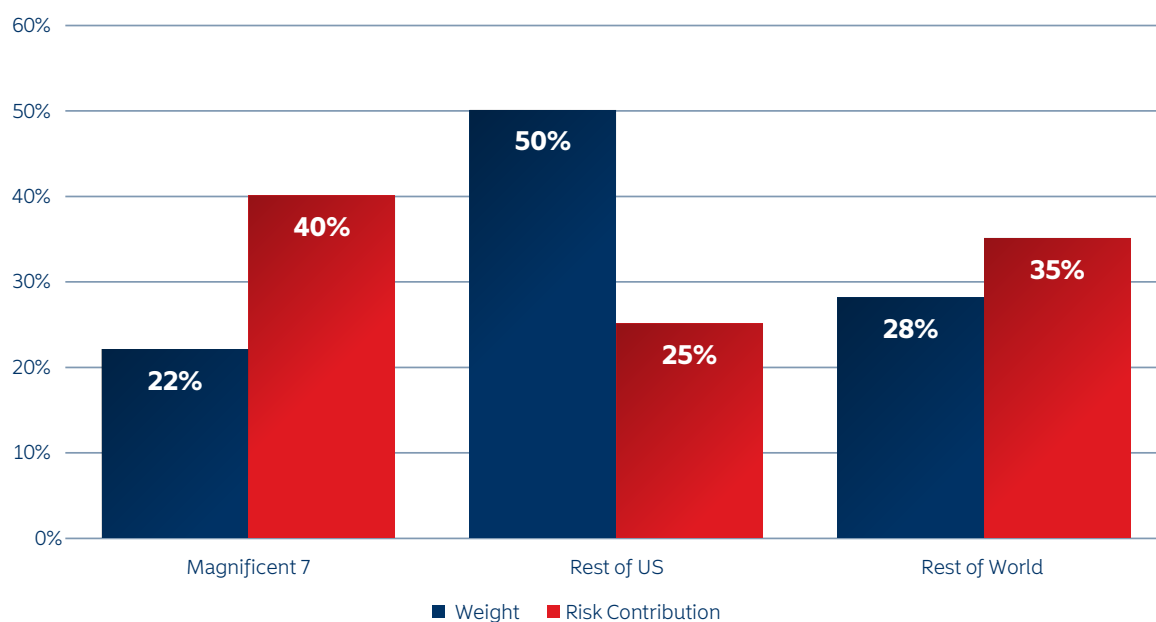


Chart 4 source: Momentum Investments

Emerging markets face their own concentration challenge

The concentration discussion is often framed as a developed-market issue, yet emerging markets exhibit similar characteristics. The nature of concentration within emerging markets has also changed significantly over the past decade. Historically, emerging market investing was largely synonymous with China, driven by urbanisation, infrastructure spending, property development and rising consumer demand. Today, however, concentration within emerging-market benchmarks is increasingly linked to Taiwan and South Korea due to their critical roles in the global semiconductor supply chain.

The rise of AI has fundamentally shifted the centre of gravity within emerging markets. Taiwan Semiconductor Manufacturing Company (TSMC) has become one of the most strategically important companies in the world, supplying advanced chips to many of the largest technology firms globally. Similarly, Samsung Electronics and SK Hynix sit at the heart of memory-chip production required for AI infrastructure. As a result, emerging-market concentration is no longer primarily a China growth story, but increasingly an AI infrastructure story. Investors allocating to emerging markets today may therefore be gaining more exposure to semiconductor demand and global technology investment cycles than to traditional emerging-market growth themes.

Weightings in the MSCI Emerging Market Index

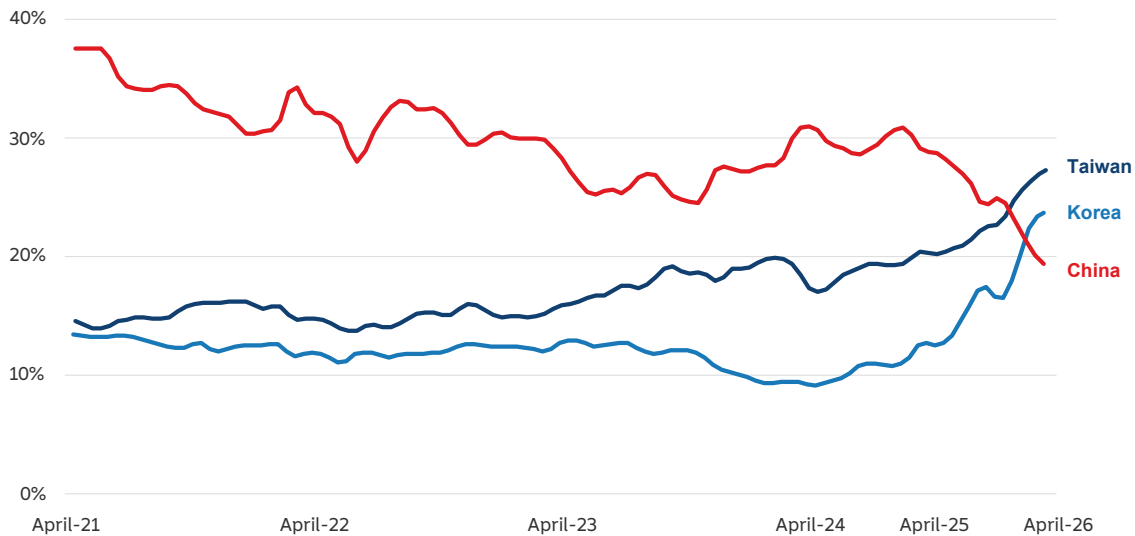


Chart 5 sources: LSEG Datastream, MSCI, Schroders. Data to 30 Jun 2026

Chart 5 provides a powerful illustration of how the nature of global equity concentration has fundamentally changed. Historically, investors have viewed geographic diversification as the primary mechanism for reducing risk, allocating capital across different countries, economies and political systems. Today, however, a small number of individual companies exert an influence on global equity indices that rivals the combined weight of entire national markets. As shown in the chart below, the combined weight of Nvidia, Apple, Alphabet, Microsoft and Amazon is approximately equal to that of major equity markets such as Japan, Taiwan, the United Kingdom, Canada and South Korea. This highlights the extent to which market leadership has become concentrated within a handful of US mega-cap technology companies.

Market capitalisations of largest tech stocks vs Emerging markets

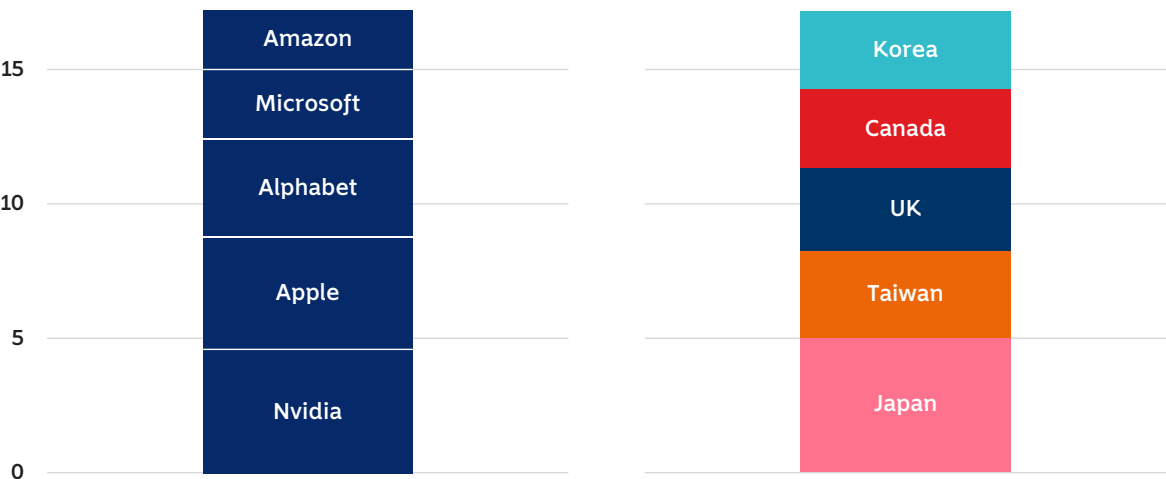


Chart 6 sources: LSEG Datastream, MSCI, Schroders. Data to 30 Jun 2026

The most significant research finding is that concentration risk is not only evident in countries but has also shifted to corporations. In previous decades, investors concerned about concentration would typically focus on geographical exposures, such as excessive allocations to Japan during the 1980s or to the United States during periods of economic dominance. Today, an investor may appear globally diversified across dozens of countries while still being heavily dependent on the earnings growth, valuation multiples and investment outcomes of a small group of technology businesses. The traditional benefits of geographic diversification are therefore being diluted by increasing company-level concentration within global benchmarks.

Chart 6 reflects the extraordinary scale and economic significance of modern platform businesses. Unlike traditional corporate leaders whose influence was often confined to a single country or region, today's technology giants operate global ecosystems spanning cloud computing, AI, digital advertising, e-commerce and semiconductor infrastructure. Their revenues, customer bases and competitive advantages extend across borders, allowing them to capture a disproportionate share of global economic growth.

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As a result, individual companies have become more influential than many national equity markets, an outcome that would have been almost unimaginable in previous market cycles.

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From a portfolio construction perspective, the chart demonstrates why headline diversification statistics can be misleading. A global index may contain thousands of underlying securities across developed and emerging markets, yet a substantial share of total returns and portfolio risk may still be driven by the same small group of companies. This means that the true sources of risk are considerably more concentrated than the number of holdings would suggest. Investors who believe they are diversified because of broad geographic exposure may, in reality, be making a significant implicit allocation to a single technological and economic theme.

Importantly, the chart should not be interpreted as evidence that these companies are necessarily overvalued or that concentration must immediately reverse. Rather, it highlights the growing dependence of global equity markets on a shrinking number of corporate winners.

Conclusion

Global equity concentration has reached levels not seen in decades, with a growing share of market returns increasingly driven by a handful of US mega-cap technology companies. While the United States now dominates developed market benchmarks and the largest stocks account for a historically elevated share of index weightings, history reminds us that concentration is not unusual.

Market leadership has repeatedly shifted between dominant countries, sectors and companies as economies evolve and new sources of growth emerge. While history suggests that market leadership will eventually evolve, today's concentration cycle may prove more durable than previous episodes. Unlike earlier periods of concentration, the current market leaders benefit from global scale, powerful network effects, exceptional profitability and the structural tailwinds of artificial intelligence and passive investing.

These forces have reinforced the dominance of a small group of companies and helped sustain concentration at levels rarely seen in modern market history. The evidence presented throughout this research highlights that the primary challenge facing investors is not concentration itself, but becoming overly dependent on it. However, history demonstrates that leadership eventually changes, often in ways that are difficult to anticipate. Investors who rely too heavily on a single country, sector or investment theme risk exposing portfolios to a narrowing set of return drivers.

For South African investors, this is a familiar challenge. Decades of investing in a concentrated local market have demonstrated that the most effective response is not to avoid concentration entirely, but to manage it through diversification across regions, sectors, asset classes, investment styles and managers.

Ultimately, successful investing is not about predicting when concentration will end, but about ensuring portfolios remain resilient regardless of who the next market leaders ultimately become.

South 02 African equity concentration:

*50 years of changing
market leadership*

EUGENE BOTHA
Head: Research Hive
Momentum Investments



Concentration is not new. What has changed is what South African investors are concentrated in.

The debate about equity-market concentration has intensified globally. A small number of very large US technology companies now account for a significant proportion of global equity indices, raising legitimate questions about diversification and the sustainability of market leadership.

For South African investors, however, concentration is hardly a new phenomenon. The Johannesburg Stock Exchange (JSE) has been a concentrated market for much of its history. What has changed repeatedly is the source of that concentration.

Over the past five decades, the South African equity market has moved through distinct periods of market leadership – from gold and mining, to financials and industrials, to commodities, and more recently towards businesses with significant global earnings and technology exposure.

“The concentration has persisted. The leadership has not.”

This distinction is important for long-term investors. The question is therefore not whether concentration exists, but what economic exposures sit behind today's concentration, and how resilient a portfolio would be if market leadership changes again.

A market shaped by its economic history

The structure of the JSE has historically reflected the evolution of the South African economy. In its earlier decades, the listed market was dominated by the country's mining industry. Gold and mining companies represented an exceptionally large proportion of market capitalisation, reflecting the importance of mining to South Africa's exports, corporate profits and economic activity.

By 1978, resources accounted for approximately 68% of the JSE All Share Index (ALSI), while historical estimates place the resource weighting at around 85% in 1960.

For investors, this meant that owning a broad South African equity portfolio represented significant exposure to a relatively narrow set of economic drivers: gold and commodity prices, mining costs, the rand and the global economic cycle.

As the South African economy evolved, so did the composition of the listed market. Financial institutions, diversified industrial companies and consumer businesses became increasingly important. The market became more diverse across sectors, but concentration itself did not disappear. It rotated.

Dominant market exposure versus Resource concentration

Period	Dominant market exposure	Estimated economic exposure to resources and commodities
1960	Gold mining and mining houses	~80-85%
1978	Gold and diversified resources	~65-70%
1990	Resources, financials and industrial conglomerates	~55-60%
2002	Resources and China commodity cycle beneficiaries	~45-50%
2010	Resources, financials and global industrials	~35-40%
2015	Financials, industrials and offshore consumer franchises	~20-25%
2020	Naspers/Prosus, financials and resources	~25-30%
2025	Resources, financials and globally exposed companies	~25-30%

Source: FTSE/JSE, Momentum Investments.

Note: This is an estimate of the broader economic exposure of the ALSI to resources and commodities rather than the formal FTSE/JSE Resources sector classification. It includes companies whose earnings or valuations are materially influenced by commodity prices, resource demand or the mining cycle. The estimates are therefore intended to illustrate the changing economic drivers of the market rather than represent formal index sector weights.

This distinction is important. The formal sector classification tells us what companies are classified as; economic exposure tells us what ultimately drives their earnings and valuations. The two are not necessarily the same.

The China cycle brought resources back to the centre

The commodity supercycle of the 2000s represented one of the most significant periods of market leadership rotation in modern JSE history. China's rapid industrialisation created extraordinary demand for iron ore, coal, platinum, copper and other industrial commodities, resulting in a substantial re-rating of resource companies globally. South African-listed mining groups benefited directly from this trend, and resources once again became a dominant driver of market performance.

Importantly, this period highlighted how the nature of concentration was evolving. While earlier mining concentration was largely tied to South African production and the local mining economy, resource concentration during the 2000s was increasingly linked to global growth dynamics. Chinese fixed investment, global commodity demand and US-dollar commodity pricing became more important determinants of JSE performance than traditional South African economic indicators.

This marked an important transition in the market's evolution. A company listed in Johannesburg was becoming increasingly dependent on global economic drivers rather than domestic growth. The concentration remained, but the underlying source of returns became increasingly international.

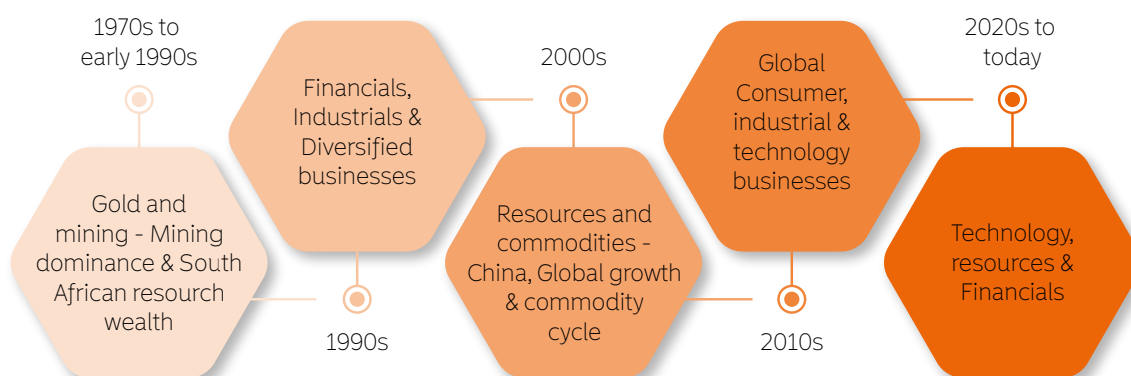
Concentration at the top of the market

Concentration has remained a defining feature of the JSE across very different market environments and leadership cycles. The dominant companies have changed, but a relatively small number of businesses have consistently accounted for a substantial share of total market capitalisation.

The historical top 10 weights provide perhaps the clearest evidence of this. From 1990 to 2025, the top 10 companies consistently accounted for a significant share of the market, with concentration rising sharply during periods of strong commodity or technology leadership.

This means that today's market leaders should not necessarily be viewed in isolation. The more important historical question is what economic forces sit behind their dominance – and what happens when those forces change?

The JSE has experienced several distinct leadership regimes:



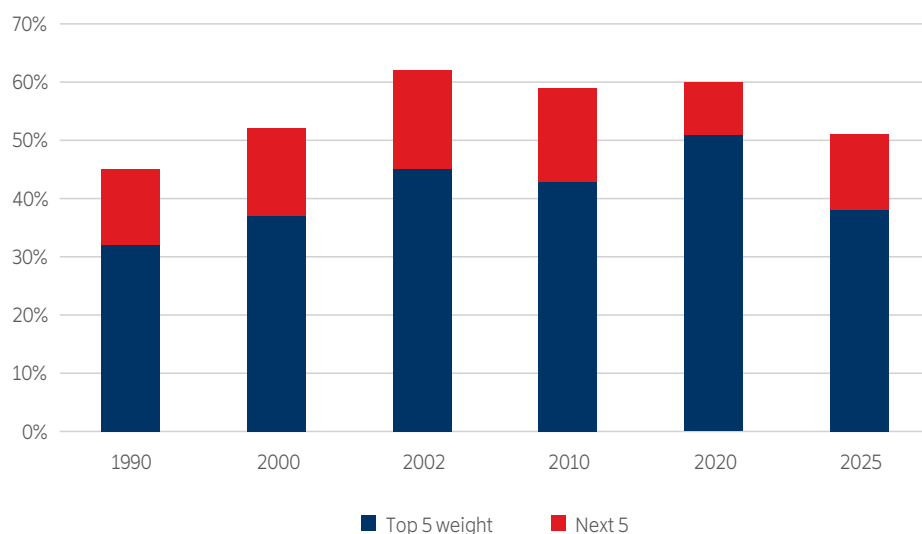
This means that investors who judge diversification solely by today's sector weights may miss the more important historical pattern.

Company concentration provides perhaps the clearest evidence that the JSE has always been a market in which a relatively small number of businesses have driven a substantial proportion of overall market value.

The historical top 10 weights are particularly revealing.

The chart below highlights how stock concentration has remained a defining feature of the South African equity market over time, despite significant changes in market leadership. From 1990 to 2025, the ten largest companies consistently accounted for approximately 45% to 60% of the market, with concentration peaking at just over 60% in the early 2000s and again around 2020. The top five companies alone have generally represented between one-third and one-half of total market capitalisation, underscoring the extent to which a relatively small number of shares have driven index performance.

JSE stock concentration



Source: FTSE/JSE historical index data; Momentum Investments.

Perhaps the most striking observation is that concentration has not increased in a straight line. Periods of rising concentration have typically coincided with powerful structural themes such as the commodity boom or the rise of global technology platforms, while periods of declining concentration have reflected broader market participation. Nevertheless, even at its lowest point, the top ten companies still represented close to half of the market. This highlights that the South African market has historically offered a narrower opportunity set than many larger global markets, with a significant share of returns and risks consistently linked to a relatively small group of dominant companies.

The composition of the market's largest companies provides another perspective on this evolution. The businesses that dominated the JSE in 1990 bear little resemblance to those that dominate the market today.

In 1990, the largest companies were overwhelmingly linked to mining and resources. By 2000, resources remained prominent, but global consumer and luxury businesses had become more important. By 2010, global industrial and consumer franchises featured alongside resources, while the rise of Naspers and Prosus subsequently introduced a new source of concentration through global technology exposure.

The market remained concentrated, but the economic exposures represented by its largest companies changed fundamentally.

Period	Companies driving concentration have changed	Dominant economic exposure
1990	De Beers, Anglo American, Gencor, Minorco, Driefontein, Rustenburg	Gold & resources
2000	Anglo American, Richemont, De Beers, Amplats, Billiton	Resources + luxury/consumer
2010	BHP Billiton, Anglo American, SABMiller, MTN, Sasol, Richemont	Resources + global industrial/consumer
2020	Naspers, BHP, Richemont, Anglo American, FirstRand, Sibanye	Global technology + resources + financials
2025	Naspers, Gold Fields, AngloGold Ashanti, FirstRand, Prosus, Standard Bank, Capitec	Technology + resources + financials

Source: FTSE/JSE historical constituents; Momentum Investments analysis.

No discussion of modern JSE concentration is complete without Naspers and, subsequently, Prosus.

Through its investment in Tencent, Naspers evolved from a South African media company into one of the most influential constituents of the local equity market. Its rise represented a new form of concentration: one of the largest companies on the JSE derived a substantial portion of its value from a global technology platform rather than from the South African economy.

This marked an important turning point. An allocation to South African equities could now provide significant exposure to Chinese technology, global digitalisation and the platform economy.

The JSE was still concentrated – but increasingly, the concentration was global.

A smaller listed opportunity set

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The concentration story has another important dimension: the number of listed companies has fallen substantially.

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Year	Listed local companies
1990	740
2000	604
2010	352
2020	264
2025	212

Source: World Bank / World Federation of Exchanges; Momentum Investments analysis.

The number of listed domestic companies declined from around 700 in the early 1990s to just over 200 today. Mergers, acquisitions, delistings, offshore listings and limited new-listing activity have reduced the number of independent companies available to investors.

The JSE, therefore, offers investors a much smaller listed universe than it did several decades ago.

This matters because concentration is influenced not only by the size of the largest companies, but also by the number of companies available for investors to diversify across.

However, a smaller listed universe does not necessarily mean a smaller economic opportunity set. Many of today's largest JSE companies provide exposure to global resources, African consumer growth, international financial services, technology, European luxury goods, telecommunications and global industrial activity.

The JSE has become smaller in number, but broader in economic geography.

The JSE is becoming less South African

Perhaps the most important change in the nature of JSE concentration has occurred beneath the surface.

The companies listed in South Africa have become increasingly global in their earnings generation.

South Africa's share of the underlying earnings of JSE-listed companies has declined, while exposure to Europe, Asia, North America and the rest of Africa has increased.

The precise historical split is difficult to measure consistently because companies report geographic exposure differently and the composition of the index has changed materially. The direction of travel, however, is clear: the JSE increasingly represents the global earnings of South African-listed companies rather than South African economic activity alone.

Regional share of SA Inc. companies' underlying earnings

Region	1990	2000	2010	2020	2025
South Africa	~80%	~70%	~55%	~40%	~38%
Africa ex-SA	~3%	~5%	~7%	~8%	~8%
Europe	~8%	~8%	~12%	~17%	~17%
Asia	~2%	~5%	~15%	~22%	~23%
North America	~4%	~7%	~8%	~11%	~12%
Other	~3%	~5%	~3%	~2%	~2%
Total	100%	100%	100%	100%	100%

Sources: FTSE/JSE, FactSet, company financial statements and Momentum Investments analysis.

This creates an important South African diversification paradox. An investor allocating to the JSE may believe they are increasing exposure to South Africa, but may in fact be increasing exposure to global commodities, Chinese technology, European consumer businesses, African economies, international financial markets and global economic growth.

The JSE is geographically concentrated by listing, but increasingly diversified by earnings.

This distinction matters when constructing portfolios. A South African equity allocation cannot be treated as a purely domestic allocation, just as an offshore allocation should not automatically be viewed as the sole source of global exposure.

The underlying economic exposures of the two portfolios can overlap significantly. A South African investor may therefore have more global exposure than the portfolio's geographical labels suggest.

The JSE has moved from being a concentrated representation of the South African economy to being a concentrated collection of increasingly global businesses.

This helps explain why the JSE's performance can diverge materially from South African economic growth. The companies may remain listed in South Africa, but their earnings are increasingly influenced by commodity demand in Asia, consumer spending in Europe, technology adoption in China, economic growth across Africa and global currency movements.

Conclusion

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The history of the South African equity market provides an important perspective on today's global concentration debate.

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The JSE has been concentrated for much of its history. What has changed is what investors are concentrated in.

Gold and mining once dominated the market. Financials, industrials and diversified businesses subsequently became more important. The commodity supercycle then returned resources to the centre of market leadership, before global consumer, industrial and technology businesses became increasingly influential.

At the same time, the number of listed companies has declined substantially, while the global earnings footprint of the remaining companies has expanded.

The result is a market that remains highly concentrated by company and sector, but is increasingly diversified by underlying economic geography.

Concentration is persistent. Leadership is not.

For long-term investors, the lesson is not to predict when today's leaders will fall, nor to eliminate concentration altogether. It is to understand the economic exposures embedded in the portfolio and ensure that diversification is sufficient to remain resilient as market leadership changes.

The JSE's history suggests that the next source of concentration may look very different from the last.



How
Momentum

03

Investments manages
concentration risk

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Momentum Investments approaches concentration through a clearly defined outcome-based investment philosophy. Rather than attempting to eliminate concentration completely, the objective is not to diversify by simply owning more investments, but to diversify the underlying drivers of return so that no single source of risk determines client outcomes. The key question is therefore not “How diversified is the portfolio?” but “What does the portfolio ultimately depend on to achieve its outcome?”

Concentration is managed by diversifying the underlying drivers of risk and return within the portfolio. This is an important distinction. Traditional diversification often focuses on increasing the number of holdings, asset classes or markets within a portfolio. However, portfolios may still remain exposed to the same economic drivers, sectors, currencies or investment themes. We focus on diversifying the sources of return that ultimately drive portfolio outcomes, ensuring that no single company, sector, country, currency, factor or investment narrative becomes the dominant determinant of long-term performance.

This approach recognises that concentration is a natural feature of capital markets. Successful companies become larger, dominant sectors emerge, and certain countries periodically lead global markets. The objective is not to avoid these opportunities, but to build portfolios that can participate in them while remaining resilient if leadership changes.

Figure 1 summarises the key portfolio construction levers used to diversify risk and return drivers within a diversified outcomes-oriented portfolio. By combining diversification across asset classes, regions, currencies, investment styles and managers, concentration is managed at the total portfolio level rather than at the level of an individual stock, sector or benchmark.

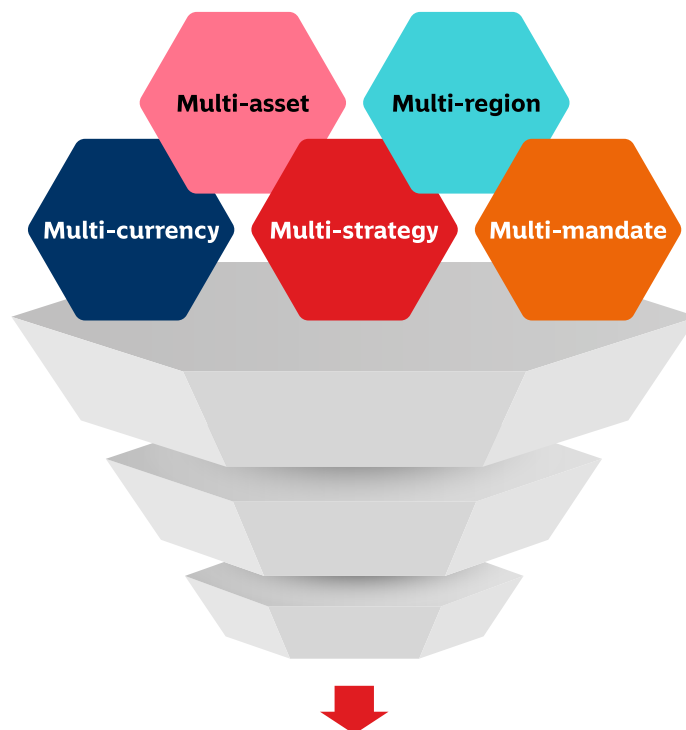


Figure 1

Outcomes-oriented diversified portfolio

The six layers of diversification



Each of these levers addresses a different form of concentration risk. Multi-asset diversification reduces dependence on a single asset class, while regional and currency diversification broaden exposure across economies and exchange rates. Multi-style and multi-manager diversification reduces dependence on a single investment philosophy or market leadership regime.

Importantly, these forms of diversification need to be considered together. A portfolio can appear diversified when viewed through the lens of individual holdings, yet remain highly concentrated in the underlying economic drivers of returns.

Currency concentration: when diversification becomes a risk

An often-overlooked source of concentration risk is currency exposure.

Currency exposure is an important source of diversification for a South African investor. Offshore assets provide exposure to global economies and markets, but they also introduce exposure to foreign currencies. Over long periods, this currency exposure can be an important contributor to portfolio resilience.

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However, diversification can become concentration when a portfolio becomes excessively dependent on a particular currency outcome.

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For a South African investor, this is particularly relevant because a large offshore allocation can create substantial exposure to the US dollar and other developed-market currencies. When those currencies are significantly away from their long-term fundamental values, the currency component of the portfolio can become a meaningful source of risk in its own right.

This does not mean that currency should be routinely hedged. Hedging away the currency exposure of offshore assets can remove an important source of diversification and can also introduce a different form of concentration – dependence on the rand.

Instead, currency management can be considered as part of the broader risk-budgeting framework. When valuation measures indicate that a currency is at an extreme relative to long-term fundamentals, selectively reducing or increasing the hedge ratio can help prevent the portfolio from becoming overly dependent on a single currency outcome.

The objective is therefore not to forecast the next move in the rand or the dollar. It is to recognise when currency exposure has become sufficiently large or extreme to materially affect the probability of achieving the investor's desired outcome.

This is consistent with the broader outcomes-based philosophy: risks should not necessarily be eliminated, but they should be understood, measured and managed when they become disproportionately important to the portfolio.

Factor diversification

Factor investing provides a systematic way of achieving broader diversification. By combining Value, Momentum and Quality exposures, portfolios gain access to fundamentally different types of businesses, sectors, regions and market opportunities. Rather than relying on a single style of investing or a single market leadership regime, factor diversification broadens the underlying return drivers within the equity portfolio and helps reduce dependence on any one source of market performance.

The fundamental insight behind factor investing is that different company characteristics identify different types of businesses.

Factor	Global
Value	1. Book to Price
	2. Dividend Yield
	3. Sales to Price
	4. Cash Flow Yield
	5. Earnings Yield
Momentum	1. Adjusted FY1 Earnings Revisions
	2. 12m price momentum
	3. 6m price momentum
Quality	1. FCF ROIC – level (10yr average)
	2. FCF ROIC – stability (Coefficient of Variation)
	3. FCF Operating Margins – level (10yr average)
	4. FCF Operating Margins – stability (Coefficient of Variation)

Table 1

Value, Momentum and Quality are not simply alternative methods of selecting stocks. Each factor captures a different source of long-term return and therefore naturally produces different regional, sector and stock exposures.

The diversification comes not from owning three different labels, but from owning three different reasons for owning a company.

Chart 1 illustrates that factor portfolios exhibit very different regional allocations as represented from 2016 to 2026. Certain factors naturally allocate more heavily towards regions where the underlying company characteristics are abundant. For example, Value opportunities may be more prevalent in Europe, Japan or parts of emerging markets during certain periods, while Momentum often becomes more concentrated in regions experiencing strong earnings growth.

Distribution of global regional exposures



Chart 1 source: Factset and Momentum Investments

Chart 2 tells a similar story at the sector level. The factors do not simply hold the same companies in different proportions. They identify fundamentally different businesses.

This is an important distinction.

Traditional benchmark diversification often disguises concentration because investors continue owning many of the same companies and sectors. Factor diversification, by contrast, creates diversification at the underlying fundamental level.

The combination of Value, Momentum and Quality therefore creates diversification across:

- Stocks
- Sectors
- Countries
- Economic drivers
- Market regimes

While any individual factor may become temporarily concentrated, the blended portfolio becomes substantially more balanced. By diversifying the reasons for owning investments, Momentum Investments reduces dependency on the dominant market leadership of any particular period.

Distribution of global sector exposures



Chart 2 source: Factset and Momentum Investments

This reduces concentration risk while retaining exposure to the broad equity risk premium. The result is a more robust portfolio capable of navigating different market environments.

Diversification is valuable because different sources of return perform well under different market environments.

Factor	Typical characteristics	Concentration benefit
Value	Lower valuations, tangible earnings/cash flows	Can provide exposure outside expensive market leaders
Momentum	Improving earnings and positive price trends	Participates in prevailing leadership
Quality	Strong profitability and durable businesses	Provides resilience through weaker environments

The challenge is that leadership between these return drivers is often cyclical and difficult to predict. An outcome-based portfolio therefore does not attempt to identify which factor will outperform next. Instead, it seeks exposure to multiple sources of return simultaneously.

This ensures that portfolio outcomes are not dependent on a single market regime continuing indefinitely.

Diversification is more than the number of holdings

A portfolio containing 200 shares is not necessarily more diversified than one containing 50. Likewise, owning South African equities, global equities, property and alternatives does not necessarily mean that the portfolio has four independent sources of return.

The underlying exposures may overlap.

For institutional investors, diversification needs to be considered on a look-through basis.

The relevant questions become: How concentrated are our largest company's exposures? How much of the portfolio is exposed to the same economic driver? How much revenue is generated domestically versus offshore? How much commodity exposure do we have? How much exposure to technology do we have? How much currency exposure do we have? How correlated are our different asset classes? Which positions contribute most to total portfolio risk?

This is a more meaningful definition of diversification than simply counting holdings. Investors should distinguish between concentration that reflects successful businesses and concentration that creates unintended portfolio dependence.

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The question is therefore not whether concentration exists, but whether the concentration is understood, intentional and appropriate for the targeted outcome.

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Not all concentration is bad

Concentration is not inherently a risk that should always be eliminated. Some concentration is intentional and reflects a deliberate investment decision – for example, allocating towards an attractive opportunity, participating in successful companies, expressing a factor exposure or allowing an active manager to take conviction positions. These concentrations are understood, measured and accepted because they are part of the investment strategy.

The greater concern is unintended concentration: exposures that emerge through the interaction of different parts of the portfolio without being explicitly intended. Different managers may hold the same companies, strategies may share common factor exposures, or apparently diversified asset classes may be driven by the same economic risk. Currency, sector and thematic exposures can similarly become larger than intended.

The distinction is therefore not simply between concentrated and diversified portfolios. It is between concentration that is deliberate and rewarded for its expected contribution to the outcome, and concentration that is accidental and creates unintended dependence on a particular risk.

This is why concentration needs to be assessed on a total-portfolio, look-through basis. The objective is not to eliminate every concentration, but to understand which risks the portfolio is taking deliberately and which have emerged unintentionally.

Intentional concentration

- Exposure to attractive opportunity
- Participation in successful companies
- Deliberate factor exposure
- Deliberate active-manager conviction

Unintended concentration

- Overlapping managers
- Common factor exposures
- Hidden sector exposure
- Excessive currency exposure
- Duplicated holdings
- Correlated asset classes

Concentration is also often assessed by market value, but portfolio risk behaves differently.

A stock representing 5% of a benchmark may contribute substantially more than 5% of total portfolio risk if it exhibits higher volatility or if many other holdings are exposed to the same economic driver.

The most important concentration risks are not always visible in the portfolio's headline weights. A total-portfolio approach, therefore, requires investors to look through asset classes, managers and strategies to identify the economic exposures that ultimately drive risk.

This reinforces the importance of evaluating exposures through a total-portfolio lens rather than considering individual holdings in isolation.

Another very important point is that concentration is often a by-product of successful innovation, strong profitability and sustained earnings growth. Many of the companies that have created substantial wealth for investors have consequently become some of the largest constituents of market indices. Momentum Investments, therefore, does not seek to avoid market leaders simply because they have become large; doing so could create a different risk – missing the companies driving long-term wealth creation.

The final funnel chart provides an important illustration using Nvidia, currently one of the most influential companies in global equity markets.

At first glance, Nvidia appears to dominate global equity risk. It represents a meaningful portion of US equity benchmarks and is frequently cited as evidence of excessive market concentration.

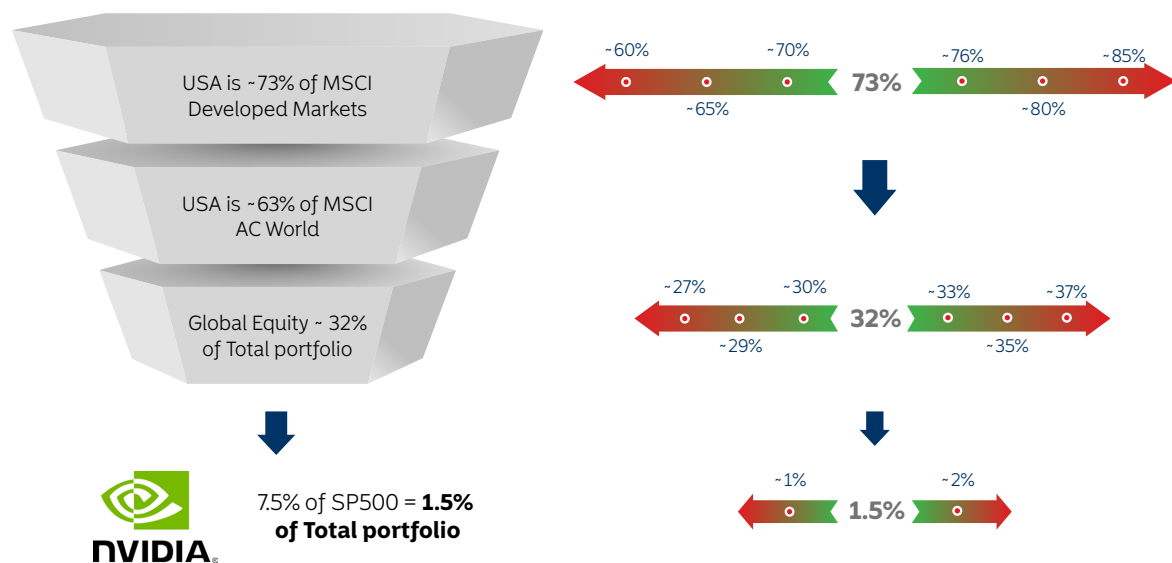
However, when viewed through the lens of a diversified portfolio, the picture changes materially.

Nvidia illustrates the difference between market concentration and portfolio concentration. While Nvidia represents roughly 7% to 8% of the S&P 500, its exposure within a diversified high-equity Momentum Investments portfolio may ultimately be closer to 1% to 2% at total-portfolio level.

The company can therefore dominate benchmark discussions without dominating the client's outcome. Asset allocation, regional diversification, managers, styles and factors progressively dilute the impact of any single company.

The question is not whether Nvidia is large. The question is whether the investor's outcome depends on Nvidia continuing to outperform.

Funnel of exposure



Conclusion

Concentration is a market reality. Portfolio concentration is a choice.

The objective of an outcome-based portfolio is therefore not to eliminate concentration or avoid successful companies. It is to ensure that no single company, sector, country, currency, factor or investment theme becomes critical to achieving the investor's outcome.

This requires looking beyond the number of holdings and asking a more fundamental question: what does the portfolio ultimately depend on?

The answer requires a total-portfolio view – across asset classes, managers, factors, regions, currencies and economic exposures. Where risks become disproportionately important, they can be managed through diversification, risk budgeting or, where appropriate, selective hedging.

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Ultimately, good diversification is not about owning more. It is about depending on less.

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