Why Value in a Concentrated World?

- Greater index **concentration,** particularly in the US and growth style indices has created portfolio construction challenges for some
- Whilst concentration has been driven by growth and momentum, this outperformance has been created by a relatively **narrow list of names**
- **These names are highly correlated and amplify risk** in portfolio construction particularly for those who are benchmark aware
- Diversifying the asset class into Global AC World or EAFE, particularly in **the value space mitigates these risks and maintains alpha generating opportunities**

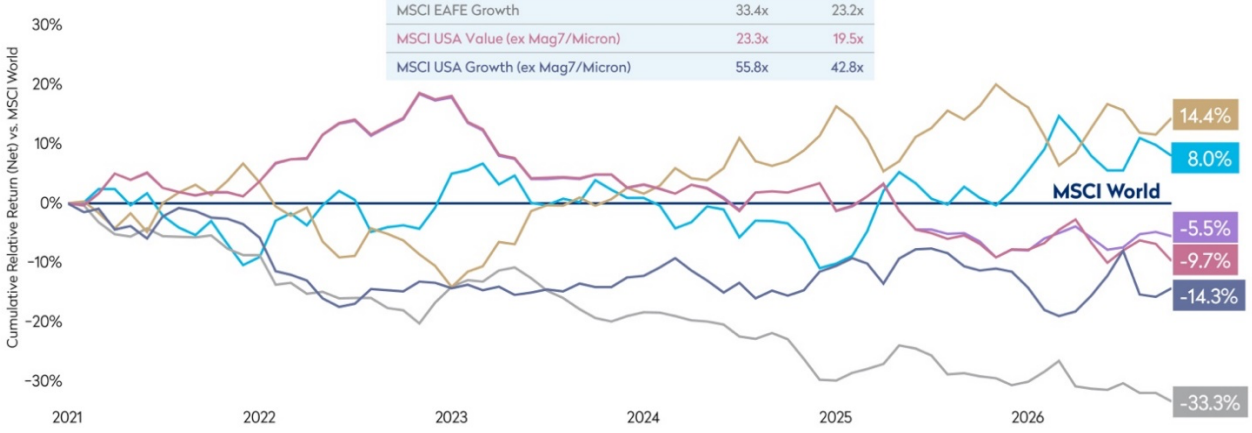
The period since the Global Financial Crisis is often described as a simple story: growth has won and value has been left behind. That description is directionally true at a global level, but it masks a much more nuanced story when we look beyond the US. In the last 10 years, growth style's dominance has been heavily influenced by a relatively small group of US companies and more recently supported by enthusiasm surrounding AI. Across developed non-US markets however, value has materially outperformed growth since 2022, as the chart below illustrates.

This distinction matters because the extreme concentration associated with certain growth benchmarks is not a universal feature of equity markets. More diversified investment universes, particularly developed markets outside the US, and value benchmarks generally exhibit a broader distribution of stocks and risk. These differences highlight why the concentration and risk challenges facing growth benchmarks should be considered separately from those of more diversified markets and value strategies.

For long-term investors, the question is not simply whether value or growth will lead next, but whether holdings reflect an independent assessment of prospective returns or primarily the increasing index weights of past winners. Against this backdrop, valuation discipline, benchmark-aware active judgement and genuine diversification take on renewed importance.

A Very Different Picture by Style and Location

P/E	Jan 2021	Sep 2026
MSCI USA Value	23.3x	20.6x
MSCI USA Growth	49.8x	32.9x
MSCI EAFE Value	17.3x	14.0x
MSCI EAFE Growth	33.4x	23.2x
MSCI USA Value (ex Mag7/Micron)	23.3x	19.5x
MSCI USA Growth (ex Mag7/Micron)	55.8x	42.8x



Source: MSCI, FactSet, Mondrian
Data as at September 30, 2026

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Reassessing Growth's Global Dominance

From the GFC through the years of exceptionally low interest rates, long-duration growth assets benefited from falling discount rates and the emergence of a powerful group of technology winners. More recently, inflation and real interest rates have risen, yet growth leadership has persisted in parts of the market. Rather than a broad-based triumph of growth investing, this increasingly reflects the exceptional performance of a narrow set of companies, particularly those associated with AI and the technology investment cycle.

The chart on the preceding page demonstrates the geographic and style divergence. From 2021 to September 2026, MSCI EAFE Value returned 8.0% cumulatively relative to MSCI World, while MSCI EAFE Growth lagged it by 33.3%; MSCI USA Growth was 14.4% ahead. The global headline therefore obscures how different the experience has been for diversified non-US value investors. What appears at a global level to be a story about investment style is therefore also a story about geographical jurisdiction.

The rolling three-year rankings detailed below also show that market leadership can persist for long periods but has changed repeatedly across regions and styles. Rather than anticipating when that leadership might reverse, the focus should remain on the prospective return available at the price paid today.

Markets Go In and Out of Favor

Annualized 3 Year Returns (USD, Net)

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	3 Years Ann. to Sep 2026
Europe Value 12.9%	USA Value -0.4%	USA Value -11.6%	Europe Value 0.1%	Pacific Value 17.1%	Pacific Value 28.3%	Europe Value 23.8%	Europe Growth 18.9%	Europe Growth -4.2%	USA Growth -2.7%	Pacific Value -0.2%	USA Growth 17.2%	USA Growth 11.4%	USA Growth 16.3%	USA Growth 20.7%	USA Growth 16.2%	USA Growth 8.0%	USA Growth 12.3%	USA Growth 9.9%	USA Growth 19.8%	USA Growth 24.2%	USA Growth 35.2%	USA 7.0%	USA 8.6%	USA Growth 10.5%	USA Growth 34.0%	USA Growth 27.1%
USA Growth 12.7%	EAFE Value -0.7%	Europe Value -11.8%	EAFE Value -0.1%	EAFE Value 15.0%	EAFE Value 27.2%	EAFE Value 22.6%	Europe 18.5%	EAFE Growth -6.5%	Europe Growth -3.4%	USA Growth -1.3%	USA 13.7%	USA 10.3%	USA 15.5%	USA 19.6%	USA 14.4%	USA 8.0%	Pacific Growth 11.2%	USA 8.5%	USA 14.6%	USA 14.5%	USA 25.9%	USA Growth 6.9%	USA Value 8.4%	USA 8.1%	USA 22.7%	Pacific Value 23.3%
EAFE Value 12.3%	Pacific Value -0.7%	EAFE Value -12.8%	Pacific Value -1.1%	Pacific 14.3%	Europe Value 26.5%	Europe 20.9%	Europe Value 18.1%	Europe -6.6%	Pacific Value -4.4%	Pacific -2.9%	USA Value 10.1%	USA Value 9.2%	USA Value 14.6%	USA Value 18.5%	USA Value 12.4%	USA Value 7.8%	USA 10.6%	USA Value 6.9%	Pacific Growth 13.0%	Pacific Growth 10.7%	Europe Growth 21.3%	USA Value 5.5%	Europe Value 7.9%	Pacific Value 7.4%	Europe Value 22.7%	EAFE Value 23.0%
USA 11.4%	Europe Value -0.8%	Pacific Value -15.0%	Pacific -2.1%	Europe Value 14.1%	Pacific 26.4%	Pacific Value 20.4%	EAFE Growth 17.3%	Pacific Value -6.9%	EAFE Growth -4.8%	USA -3.3%	Europe Growth 10.1%	Europe Growth 6.0%	Europe Growth 10.1%	Europe Growth 12.0%	EAFE Growth 6.8%	Pacific Value 2.2%	Pacific 10.2%	Pacific Growth 5.4%	EAFE Growth 12.8%	EAFE Growth 9.7%	EAFE Growth 19.0%	Europe Growth 2.0%	USA Growth 7.8%	EAFE Value 5.9%	EAFE Value 21.4%	Europe Value 22.5%
Pacific Value 11.2%	USA -2.4%	Europe -15.7%	EAFE -2.9%	EAFE 11.9%	Pacific Growth 24.4%	EAFE 19.9%	EAFE 16.8%	EAFE -7.4%	Pacific -6.0%	USA Value -5.3%	Pacific Value 9.2%	Pacific Value 6.0%	Europe 9.9%	Europe 11.9%	Europe Growth 6.8%	Pacific 1.4%	EAFE Growth 9.2%	Pacific 4.5%	Europe Growth 12.7%	Europe Growth 8.9%	USA Value 16.3%	Pacific Value 1.8%	EAFE Value 7.6%	Europe Value 5.0%	Pacific Value 18.4%	USA 22.4%
Europe 10.9%	Pacific -4.4%	USA -16.3%	Europe -3.2%	Pacific Growth 11.5%	EAFE 23.7%	Europe Growth 18.0%	EAFE Value 16.3%	EAFE Value -8.2%	USA -6.0%	Pacific Growth -5.7%	EAFE Growth 8.5%	EAFE Growth 4.9%	Europe Value 9.5%	Europe Value 11.6%	Pacific Growth 6.7%	Pacific Growth 0.6%	Pacific Value 9.1%	Pacific Value 3.5%	Europe 9.8%	Pacific 5.5%	Europe 14.9%	Europe 1.3%	Pacific Value 7.0%	USA Value 4.6%	Europe 18.2%	Pacific 19.8%
EAFE 9.4%	EAFE -5.0%	EAFE -17.2%	Pacific Growth -3.3%	Europe 11.0%	Europe 22.4%	Pacific 17.9%	Pacific Growth 13.6%	USA Value -8.3%	EAFE -6.0%	EAFE Growth -5.9%	Europe 7.9%	Pacific 4.6%	EAFE Value 8.3%	EAFE 11.1%	Pacific 5.8%	EAFE Growth -1.2%	USA Value 8.8%	EAFE Growth 2.9%	EAFE 9.6%	USA Value 4.7%	Pacific Growth 14.7%	EAFE 0.9%	Europe 5.8%	Pacific 2.4%	EAFE 17.2%	EAFE 18.4%
USA Value 8.9%	Europe -5.3%	Europe Growth -19.9%	USA Value -3.7%	EAFE Growth 8.8%	EAFE Growth 20.2%	EAFE Growth 17.2%	Pacific 13.2%	USA -8.9%	Europe -6.1%	Europe Growth -5.9%	EAFE 7.6%	EAFE 3.6%	EAFE 8.2%	EAFE Value 11.0%	EAFE 5.0%	EAFE -1.6%	Europe Growth 8.1%	EAFE 2.9%	USA Value 9.5%	EAFE 4.3%	EAFE 13.5%	EAFE Value 0.6%	EAFE 4.0%	EAFE 1.6%	Pacific 15.0%	Europe 17.5%
Europe Growth 8.4%	USA Growth -5.7%	Pacific -20.5%	USA -4.7%	Europe Growth 7.8%	Europe Growth 18.2%	Pacific Growth 15.2%	Pacific Value 12.6%	Europe Value -9.0%	EAFE Value -7.4%	EAFE -7.0%	Pacific 7.5%	Europe 3.2%	EAFE Growth 8.0%	EAFE Value 11.0%	Pacific Value 4.9%	Europe Growth -2.1%	EAFE 7.8%	EAFE Value 2.8%	Pacific 9.4%	Europe 3.6%	Pacific 11.1%	EAFE Growth 0.5%	Europe Growth 3.4%	Europe 1.2%	Europe Growth 13.8%	USA Value 17.3%
Pacific 6.2%	Pacific Growth -8.5%	USA Growth -21.5%	EAFE Growth -5.8%	USA Value 5.0%	USA Value 16.5%	USA Value 13.1%	USA 8.3%	Pacific -9.1%	Pacific Growth -7.7%	EAFE Value -8.1%	EAFE Value 6.8%	Pacific Growth 3.2%	Pacific Value 6.2%	Pacific Value 9.7%	Europe 4.5%	EAFE Value -2.1%	Europe 6.7%	Europe Value 2.6%	Europe Value 6.8%	Pacific Value 0.3%	Europe Value 8.1%	Pacific 0.0%	Pacific 1.0%	EAFE Growth -2.6%	EAFE Growth 13.2%	Pacific Growth 16.3%
EAFE Growth 6.1%	EAFE Growth -9.7%	EAFE Growth -21.8%	USA Growth -6.2%	USA 2.8%	USA 14.1%	USA 9.9%	USA Growth 8.3%	USA Growth -9.8%	Europe Value -8.8%	Europe -8.9%	Pacific Growth 5.8%	EAFE Value 2.2%	Pacific 5.3%	Pacific 9.6%	EAFE Value 3.1%	Europe -3.2%	EAFE Value 6.4%	Europe 2.1%	EAFE Value 6.3%	EAFE Value -1.2%	EAFE Value 7.8%	Europe Value -0.1%	EAFE Growth 0.3%	Europe Value -2.6%	Pacific Growth 11.6%	EAFE Growth 13.9%
Pacific Growth 1.1%	Europe Growth -10.1%	Pacific Growth -26.0%	Europe Growth -6.7%	USA Growth 0.6%	USA Growth 11.7%	USA Growth 6.8%	USA Value 8.2%	Pacific Growth -11.5%	USA Value -9.3%	Europe Value -12.0%	Europe Value 5.5%	Europe Value 0.3%	Pacific Growth 4.4%	Pacific Growth 9.5%	Europe Value 2.0%	Europe Value -4.4%	Europe Value 5.1%	Europe Growth 1.5%	Pacific Value 5.8%	Europe Value -2.1%	Pacific Value 7.2%	Pacific Growth -2.3%	Pacific Growth -5.0%	Pacific Growth -2.6%	USA Value 11.6%	Europe Growth 12.6%

Source: MSCI, FactSet, Mondrian
Data as at September 30, 2026

A Rise in Market Concentration

The exceptional performance of a relatively small number of companies has materially changed the composition of several major equity benchmarks. As the top-five concentration table below shows, the effect moderates across broader and more diversified market universes: in September 2026, the five largest stocks represented almost 30% of MSCI USA, compared with 19% of MSCI AC World and just 8.8% of MSCI EAFE.

The distinction between styles is even more striking. The five largest stocks made up 53.1% of MSCI USA Growth, compared with 24.4% of MSCI USA Value in September 2026. In MSCI AC World, the equivalent figures were 34.4% for Growth and 15.6% for Value; in emerging markets, 45.2% and 29.8%, respectively. EAFE remained markedly less concentrated in both styles, at 14.5% for Growth and 11.9% for Value.

These comparisons demonstrate that concentration is far from a universal equity market phenomenon. While it has increased significantly in certain markets and growth-oriented indices, more diversified investment universes, particularly developed international markets, and value benchmarks generally retain a considerably broader distribution of holdings.

Concentration is not inherently problematic. Successful companies can, and should, become larger as their earnings and cash flows grow. However, a larger benchmark weight does not necessarily imply lower stock-specific risk and can increase the influence of an individual company on overall index returns and risk. This is particularly relevant for passive and enhanced-index strategies, where portfolio exposures are closely tied to benchmark weights. For active value investors, the focus remains on assessing prospective returns and underlying risks independently, while remaining aware of the benchmark.

Top 5 Stocks Concentration

	2014	2019	2024	September 2026
USA	10.3%	14.8%	26.0%	29.7%
USA Value	16.6%	12.5%	10.9%	24.4%
USA Growth	14.6%	32.1%	48.7%	53.1%
Taiwan	39.3%	50.0%	65.7%	68.4%
Taiwan Value	31.4%	26.3%	32.2%	61.6%
Taiwan Growth	67.7%	85.0%	96.6%	85.1%
Japan	15.0%	12.3%	18.3%	17.0%
Japan Value	24.1%	22.4%	28.4%	29.7%
Japan Growth	15.6%	14.2%	27.4%	29.1%
Korea	42.4%	49.8%	46.7%	74.2%
Korea Value	37.3%	49.8%	58.4%	71.6%
Korea Growth	61.3%	65.2%	51.7%	84.5%
EM	12.3%	20.1%	21.4%	34.7%
EM Value	14.4%	12.2%	14.8%	29.8%
EM Growth	20.6%	35.8%	36.1%	45.2%
EAFE	8.0%	7.2%	7.7%	8.8%
EAFE Value	10.6%	9.5%	11.3%	11.9%
EAFE Growth	12.3%	12.7%	15.0%	14.5%
GACW	5.4%	8.2%	18.3%	19.1%
GACW Value	8.7%	6.9%	7.1%	15.6%
GACW Growth	8.1%	17.8%	35.0%	34.4%

Source: MSCI and FactSet
Data as at September 29, 2026
Colour key (top-five share): blue below 30%; purple from 30% to below two-thirds; dark navy two-thirds or more.

When Concentration Becomes Concentration of Risk

Benchmark weights tell only part of the story. Concentration becomes more consequential when the largest constituents also move increasingly in tandem. Pairwise correlations among the five largest stocks have risen in some markets, although not universally. In those cases, concentration of capital can become concentration of risk, as the top-ten weighting and risk-contribution chart below illustrates.

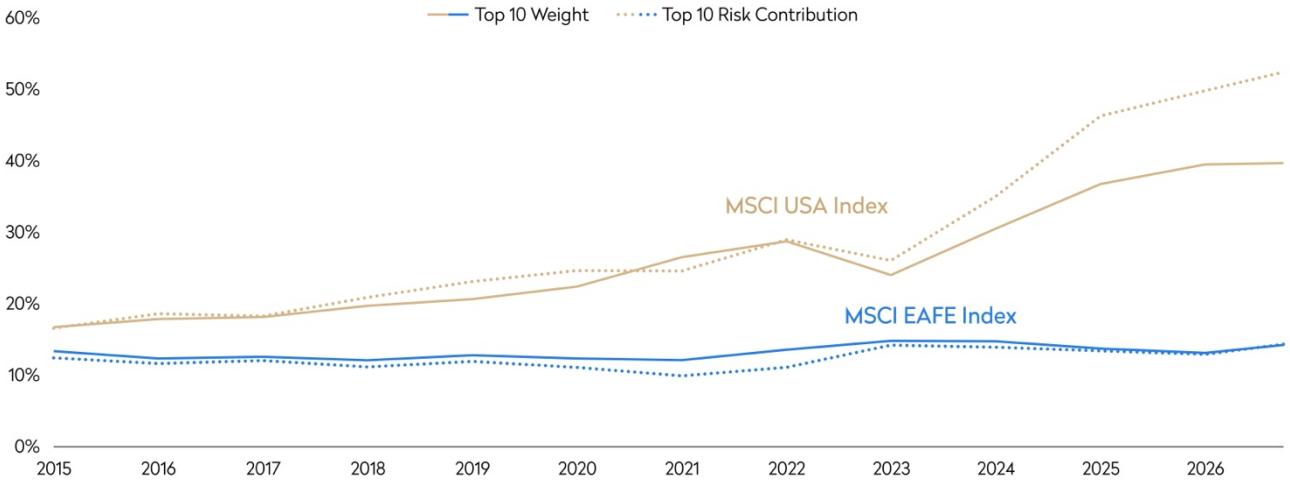
This is particularly evident in the US, where the ten largest stocks accounted for 52.4% of estimated index risk in September 2026, compared with 16.6% in 2015. EAFE presents a markedly different picture: the risk contribution of its ten largest constituents increased only modestly, from 12.5% to 14.3% over the same period. The chart below shows that US risk contribution has risen faster than top ten index weight, while the two measures remain much more closely aligned in EAFE.

For active managers, increasing benchmark concentration creates additional challenges. Choosing not to own a heavily weighted constituent can itself become a significant relative-risk position, even where the portfolio remains fundamentally diversified. This is particularly relevant for value managers measured against broad, non-stylized benchmarks, where the exceptional performance of a narrow group of growth stocks can increase tracking error without necessarily indicating a corresponding increase in the portfolio's underlying absolute risk.

That distinction matters when interpreting tracking error. For an asset owner, tracking error helps assess risk against a broad, non-stylized plan benchmark, especially when growth and value sleeves have very different relative outcomes. But for an individual manager, absolute risk, including standard deviation and potential downside, should be central, with benchmark awareness informing active exposures rather than dictating security selection.

Concentration and Correlation Increase Risk

Top 10 Stock Weighting vs Risk Contribution



Source: MSCI, FactSet, Mondrian
Data as at September 30, 2026

Why Value?

The case for value in today's market is not predicated on the current market leaders becoming tomorrow's losers. Successful companies can continue to grow, and structural trends such as AI can create significant economic value. The role of a value investor is not to dispute that potential, but to ask what return is available from the price investors are being asked to pay today.

This distinction becomes increasingly important as markets become more concentrated. Market-cap-weighted indices allocate more capital to companies as their share prices rise, meaning that past success can result in an increasingly large influence on future portfolio returns. A valuation-driven approach starts from a different premise: Is a security mispriced? Capital is allocated according to an independent assessment of prospective returns, based on analysis of cash flows and how they are allocated between dividends, share buybacks, reinvestment, the retirement of debt and M&A. This can be stress tested through a range of potential outcomes. The benchmark remains a reference for understanding portfolio exposures, not a substitute for fundamental valuation.

Value should therefore not be equated with buying low-multiple stocks or simply replicating a value index. A fundamental value investor can identify opportunities in growing technology companies where prospective cash flows justify an attractive return, just as a company trading on a low multiple can represent poor value if its fundamentals are deteriorating. While recent growth leadership has been

reinforced by strong price momentum, value investing seeks to benefit from the potential convergence of share prices towards their intrinsic worth. Rather than relying on the continuation of recent market trends, a disciplined value approach identifies opportunities where current valuations do not adequately reflect long-term fundamentals.

In an environment where market concentration has increased significantly in certain areas, active value investing provides the flexibility to seek attractive prospective real returns across a broader opportunity set, without being compelled to follow the growing weight of the largest benchmark constituents.

Conclusion

The concentration of market capitalization and risk in a relatively small group of companies has created significant challenges in certain equity markets. Yet the experience across more diversified investment universes and value benchmarks demonstrates that these challenges are far from universal.

For active value investors, the distinction between benchmark-relative and absolute risk remains particularly important. Benchmark awareness can inform portfolio construction without overriding fundamental judgement, allowing investment decisions to remain grounded in intrinsic value, prospective real returns and an independent assessment of risk.

Ultimately, the case for active value does not depend on predicting when growth leadership will reverse. It rests on the ability to identify attractive investment opportunities across a diversified universe, while maintaining the valuation discipline and flexibility to construct portfolios independently of increasingly concentrated benchmarks.

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	MSCI USA Index	MSCI EAFE Index	MSCI World Index
2021	26.5%	11.3%	21.8%
2022	-19.8%	-14.5%	-18.1%
2023	26.5%	18.2%	23.8%
2024	24.6%	3.8%	18.7%
2025	17.3%	31.2%	21.1%

Source: MSCI