

THE CASE FOR A SMARTER APPROACH TO GLOBAL EQUITIES

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EXECUTIVE SUMMARY

Key Takeaways

- ▶ Equity markets have evolved, leaving some core global equity allocations less aligned with their original objectives. This is being driven by rising market concentration, and a greater need for selectivity and broader diversification.
- ▶ Active versus passive need not be a binary choice. Passive exposure can be an efficient solution in highly researched markets, while active management may be better suited to less efficient areas where company selection can add value.
- ▶ A smarter global equity allocation combines both approaches; passive in efficient markets and deploying active risk where alpha potential is the greatest.

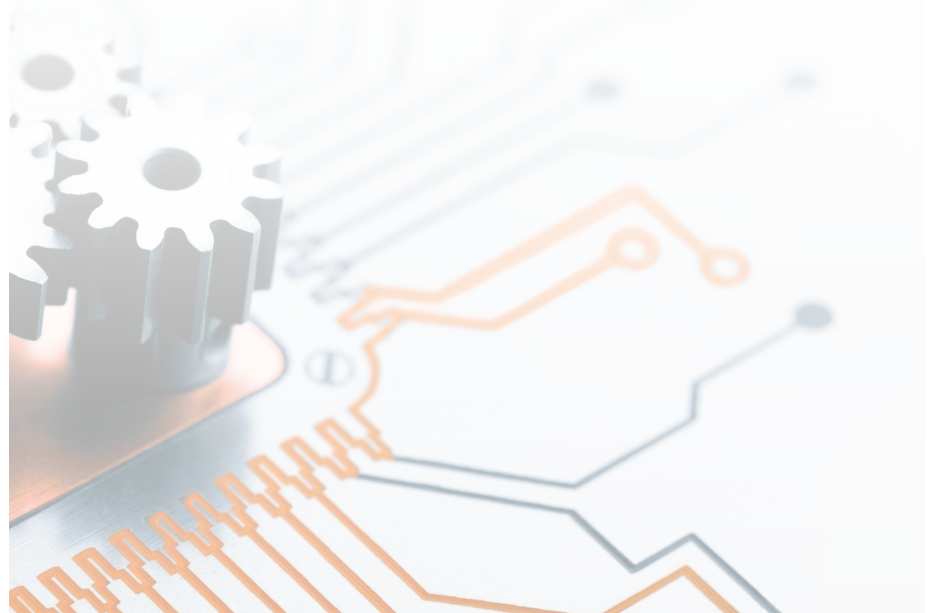
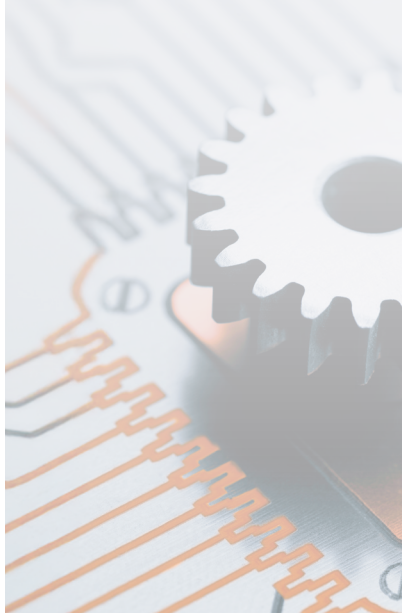
Is there a smarter, more efficient way to gain exposure to global equities?

Global equities offer attractive valuations and exposure to powerful secular themes, with real diversification benefits and the potential for long-term growth. Gaining exposure has typically been straightforward for much of the past decade – buy the broad market, with US mega-caps being a large default allocation of the portfolio and allow a handful of exceptional companies do much of the heavy lifting. The next decision would have been which approach to take: active or passive? If low cost was the main objective than passive would be the way to go, or if alpha is the main aim, then go active. While there has been a massive shift towards passive, active investing has proven potential to add value in the right markets and conditions.

But thinking in a more pragmatic and practical manner, a more useful question would be: When and where does each approach make the most sense? While a purely passive approach may have worked well, it is based on the assumption that the global equity allocation is naturally diversified and suits every market environment.

Some equity markets, for example US large caps, offer exposure to innovative global leaders and are well covered by research analysts, but these highly efficient markets are hard to beat consistently. Others like US small and mid-caps, and some ex-US stocks are less well researched, offer greater stock and sector return dispersion. These markets are more likely to be rewarded by active judgement.

We believe a smarter global equity allocation recognises those market differences and builds portfolios around them. For investors seeking a core global equity allocation that can unlock innovation and new opportunities, **combining active and passive may create more ways to win.**



Why is a smarter global equities approach needed now?

The rationale for revisiting global equity allocations extends beyond simply securing exposure to a broad set of macro themes. More importantly, some global portfolios today look and perform differently from what they were originally designed for.

Global benchmarks are more concentrated today

Market-cap-weighted indices automatically allocate more to companies that have already risen in value. That can be rewarding, but it also means investors tend to end up with more exposure to yesterday's winners than they realise: regardless of company fundamentals and long-term growth and return potential.

Concentration risk should be understood rather than accepted as the default by investors.

Unintended risk: MSCI World is increasingly dominated by a small number of stocks

Year	Top 10 Holdings Weight (%)	US Weight (%)	Technology Weight (%)
2000	13%	58%	28%
2005	9%	48%	11%
2010	10%	50%	12%
2015	10%	59%	15%
2020	18%	67%	22%
2025	22%	71%	25%

Source: Bloomberg, Janus Henderson Investors, as at 31 July 2026.
For illustrative purposes only, not intended to be representative of the returns of any particular investment. Figures rounded up to nearest whole number.

Opportunities exist beyond the index

Many of the most attractive equity opportunities may sit outside the most obvious parts of the market. These include smaller companies, international leaders, specialist industries, supply-chain beneficiaries and businesses adapting to structural change.

Stock selection is more important with the return of the cost of capital

When funding was cheap with exceptionally low interest rates post the Global Financial Crisis, the focus was on growth rather than profitability. Markets were rising together, meaning just having broad equity exposure often did much of the job. In a higher-rate world with the return of the cost of capital, selectivity comes to the fore – fundamentals, balance sheets, pricing power and capital discipline need to be considered.

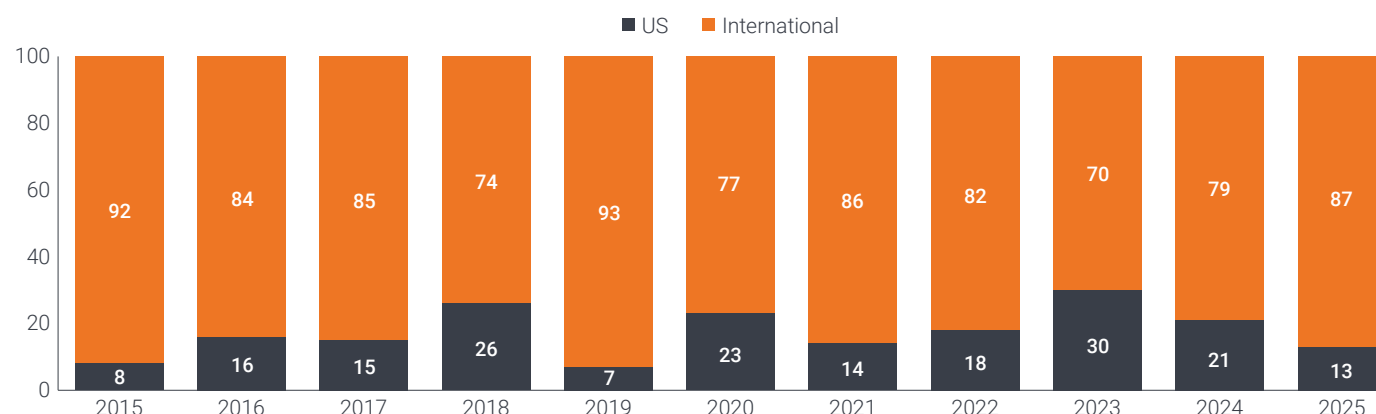
Stronger case for global diversification

Recent years have encouraged many investors to equate global investing with US large-cap investing. History suggests this is a dangerous assumption. Periods of market leadership can persist for long periods, but they rarely last forever.

Importantly, diversification goes beyond geography: it should capture different sources of innovation, economic cycles, policy regimes and market structures. In an increasingly fragmented world, these differences are likely to become more important in the pursuit of attractive long-term risk-adjusted returns.

Diversification across geographies can reduce risk and capture growth where it's accelerating. Tapping into durable and emerging themes could help enable a global equity portfolio to remain relevant and positioned for the future.

Domicile of top 100 performing stocks (%) – MSCI ACWI Index



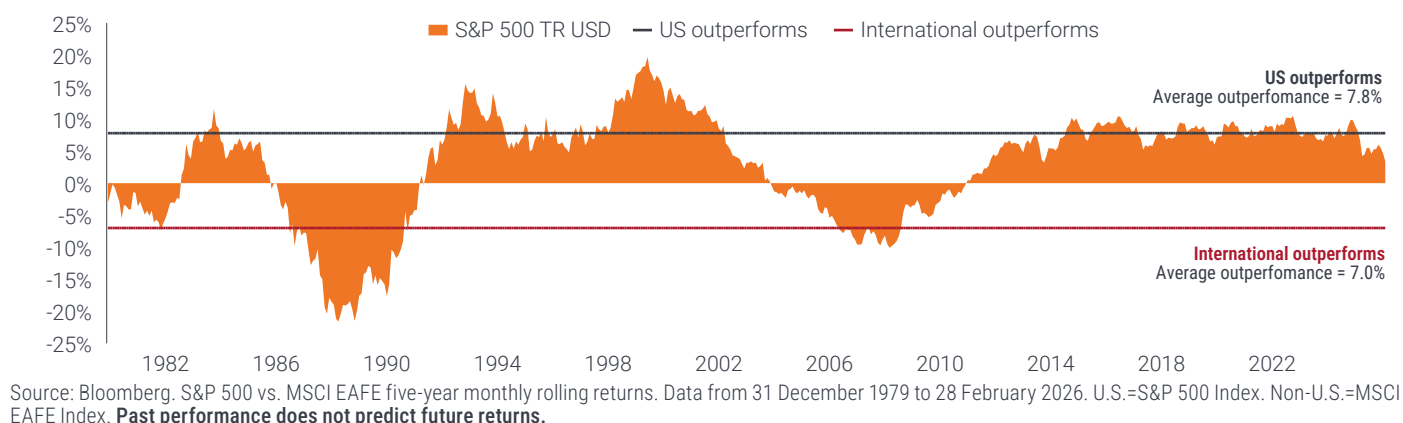
Source: Morningstar, as at 31 December 2025.

Note: Actual results may vary, and the information should not be considered or relied upon as a performance guarantee. For illustrative purposes only.

Active vs passive need not be a binary decision

Investors often frame their allocation discussions as a choice between active and passive investing. However, the debate has now evolved with passive no longer being a neutral approach but an active decision. Over time, the leadership of US and non-US equities has proved to be cyclical, with periods of US dominance often followed by phases in which international markets outperform, adding to the challenge of making binary allocation decisions.

Outperformance of US and non-US equities has historically been cyclical



Passive + Active = A smarter global equities portfolio

We believe equity markets can increasingly be viewed through two lenses and that investors do not need to make a choice between passive and active:

1. The efficient core

Certain areas of the market are highly researched, information-rich and intensely competitive. Large-cap US equities are the clearest example; these companies benefit from extensive analyst coverage, high liquidity and significant investor attention. Because of these factors, excess returns have been structurally more difficult to generate consistently, with only circa 10% of active US large cap funds outperforming the S&P 500 in the past 15 years¹. Here, low-cost index exposure can provide efficient access to some of the world's most innovative and successful businesses, with stronger longer-term growth potential and more diversified revenue sources.

2. The less efficient opportunity set

Other parts of the market continue to exhibit meaningful inefficiencies. This includes US small and mid-caps, which typically have less analyst coverage, resulting in larger information gaps and wider valuation dispersion. These

conditions create a more fertile environment for active management.

Strong growth in ex-US markets, specialist sectors and businesses undergoing structural change offer ample opportunities for alpha generation for active managers that can separate durable businesses from weaker ones and identify those that have higher growth potential. They aim to add value through fundamental research, long-term investment horizons, capital allocation analysis, exploiting behavioural inefficiencies, identifying beneficiaries of structural trends and geopolitical change, as well as managing unintended concentration and factor exposures. The potential for returns grows as market dispersion increases: 96% of active global equity strategies run with less than 3% tracking error beat their benchmark.²

In our view, capital may be better allocated to passive exposure in highly efficient markets, while active management is better suited to markets where information asymmetries and valuation dispersion exist. Here, fundamental research, judgement and selectivity have stronger potential to be rewarded – active where active matters.

Market segment	Typical characteristics	Implementation bias
Highly efficient core (e.g. US large caps)	Large, liquid, well-researched markets with intense investor attention.	Low-cost passive can be a strong starting point.
Less efficient opportunity set (e.g. US small and mid-caps, ex-US stocks)	Less coverage, wider dispersion, more company-specific outcomes.	Selective active management may be better rewarded.

¹ eVestment as at 31 March 2025. 10-years ending Q4 2019. Global Large Cap Equity universe versus MSCI All Country World Index (net return). Returns gross of fees in USD.

² S&P Global SPIVA Scorecard. 15 years to 31 December 2025. Past performance does not predict future returns.

Building a global equity portfolio fit for the next decade

Three key principles to focus on:

1. Align implementation with market efficiency

Use passive exposure where markets are highly efficient and reserve active risk for areas where the opportunity set is greater.

2. Diversify across evolving growth drivers

Avoid becoming overly dependent on a single region, sector or group of companies. Ensure portfolios reflect the changing nature of the global economy.

3. Make active risk intentional

Active management should be deployed selectively and deliberately where there is a clear rationale for why skill can add value.

Benefits of a blended active and passive approach to global equities

Goal	Active	Passive	Blended active and passive	Aim
Low cost	X	✓	✓	 Efficient portfolio construction
Alpha potential	✓	X	✓	 Exploit inefficiencies where alpha potential is greater
Performance consistency	X	✓	✓	 Combine broad market exposure with selective stock picking to drive consistent outcomes

Conclusion

The case for rethinking a core global equity allocation that is fit for the next decade is not about choosing active over passive or rejecting the benefits that index investing has delivered.

Instead, it should be shaped by investors’ ability to recognise that markets are becoming increasingly polarised between efficient cores and less efficient opportunity sets, with portfolios designed to take advantage of these differences.

A smarter approach combines the cost efficiency of passive exposure where markets are highly efficient, with selective active management where deep expertise, specialist research, fundamental decision-making and risk control are more likely to add value and be rewarded.

In today’s world of higher concentration, shifting market leadership and greater dispersion between corporate winners and losers, practical, forward-looking implementation matters.

For long-term investors, the goal is not simply to own global equities, but to own them in a **smarter, more intentional** way.

Principle	What it means	Portfolio implication
Market efficiency matters	Different segments offer different levels of opportunity for active skill.	Use passive in efficient cores; deploy active where inefficiency is more persistent.
Diversification must evolve	Global exposure should reflect changing economic leadership, not yesterday’s concentration.	Broaden across regions, sectors, company sizes and structural growth drivers.
Active risk should be intentional	Active management should be used where there is a clear rationale for value added.	Focus active risk in areas where research, horizon and judgement can be rewarded.

“ At the heart of our investment philosophy is our core belief that positive long-term investment performance can be achieved through blending active and passive strategies that take advantage of market opportunities”

Matthew Bullock, Head of Portfolio Construction & Strategy, EMEA & APAC



A smarter global equities solution can aim to provide **resilience today, acceleration tomorrow** and **access to the world’s evolving opportunities.**

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