

Quick Take: The New Challenge – Funding Ideas, Not Finding Them

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The Emerging Markets (EM) benchmark: Historically concentrated

- Taiwan Semiconductor Manufacturing Company* accounts for 14.5% of MSCI's EM index—more than double the historical average weight of the largest constituent. The effective number of stocks in the index is at historic lows (top chart).

Concentration reduces flexibility in long-only portfolio construction

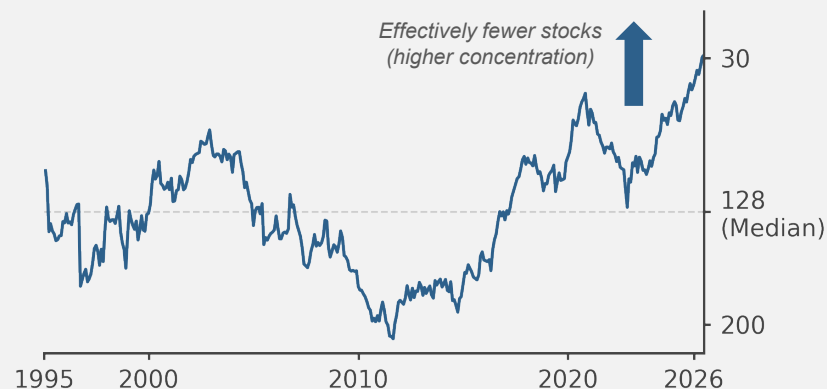
- Benchmark concentration does not necessarily imply fewer investment opportunities, but it can hamper active managers' ability to express views. This is particularly true for long-only strategies, since they cannot short.
- One illustration is the impact of prudent limits on active position sizes. Restrictions on individual underweights naturally place a ceiling on achievable active share. As benchmarks become concentrated, that limit tightens because there are fewer large positions in which to take the maximum permitted underweight.
- The effect can be material. For example, an illustrative example in the bottom chart shows that with 1.5% active position limits, today's EM index concentration would correspond to roughly a 20% reduction in potential active share relative to the benchmark's historically typical composition (blue trace).

A practical improvement: Extension strategies

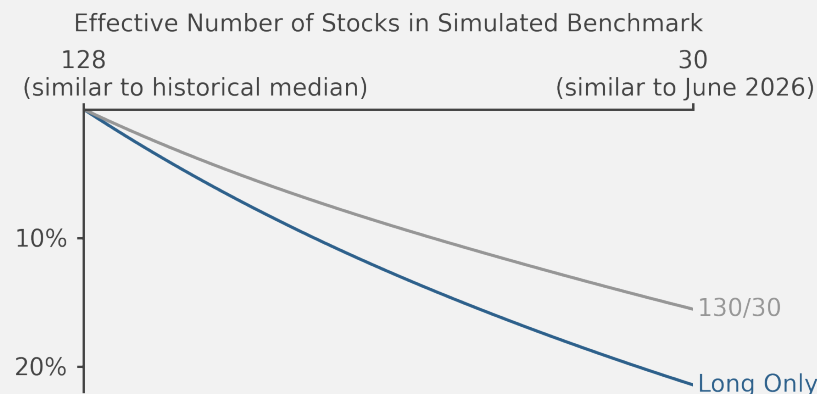
- Allowing shorting reduces this effect of benchmark concentration by lessening managers' dependence on underweighting index heavyweights to finance active longs. In the bottom chart, comparison of the blue and gray traces highlights the improvement in maximum active share achievable by moving from a long-only to a 130/30 portfolio. Similar benefits of extensions apply to other constraints, including tracking-error budgets.
- As market concentration increases, the flexibility provided by extension strategies can become increasingly valuable.

* The reference to this company should not be interpreted as recommendations to buy or sell specific securities. Acadian and/or the authors of this paper may hold positions in securities associated with it.

MSCI EM Index: Historical Effective Number of Stocks



Loss of Achievable Active Share from Benchmark Concentration



Illustrative example based on hypothetical active portfolios:

- Benchmarked to simulated indexes with composition parameterized to approximate historically observed levels of MSCI EM Index concentration
- With +/-1.5% limits on over- and underweights

Top chart—inverse of the Herfindahl-Hirschman Index based on historical monthly MSCI EM Index weights through May 31, 2026. Bottom chart—please contact us for details on simulated benchmark composition. Both charts—source: Acadian calculations based on data from MSCI. MSCI data copyright MSCI 2026. All Rights Reserved. Unpublished. PROPRIETARY TO MSCI. For illustrative purposes only.



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