RESEARCH PAPER

How ‘Global’ Is a Global Equity Portfolio Today?

Beutel Goodman Global Equities Team

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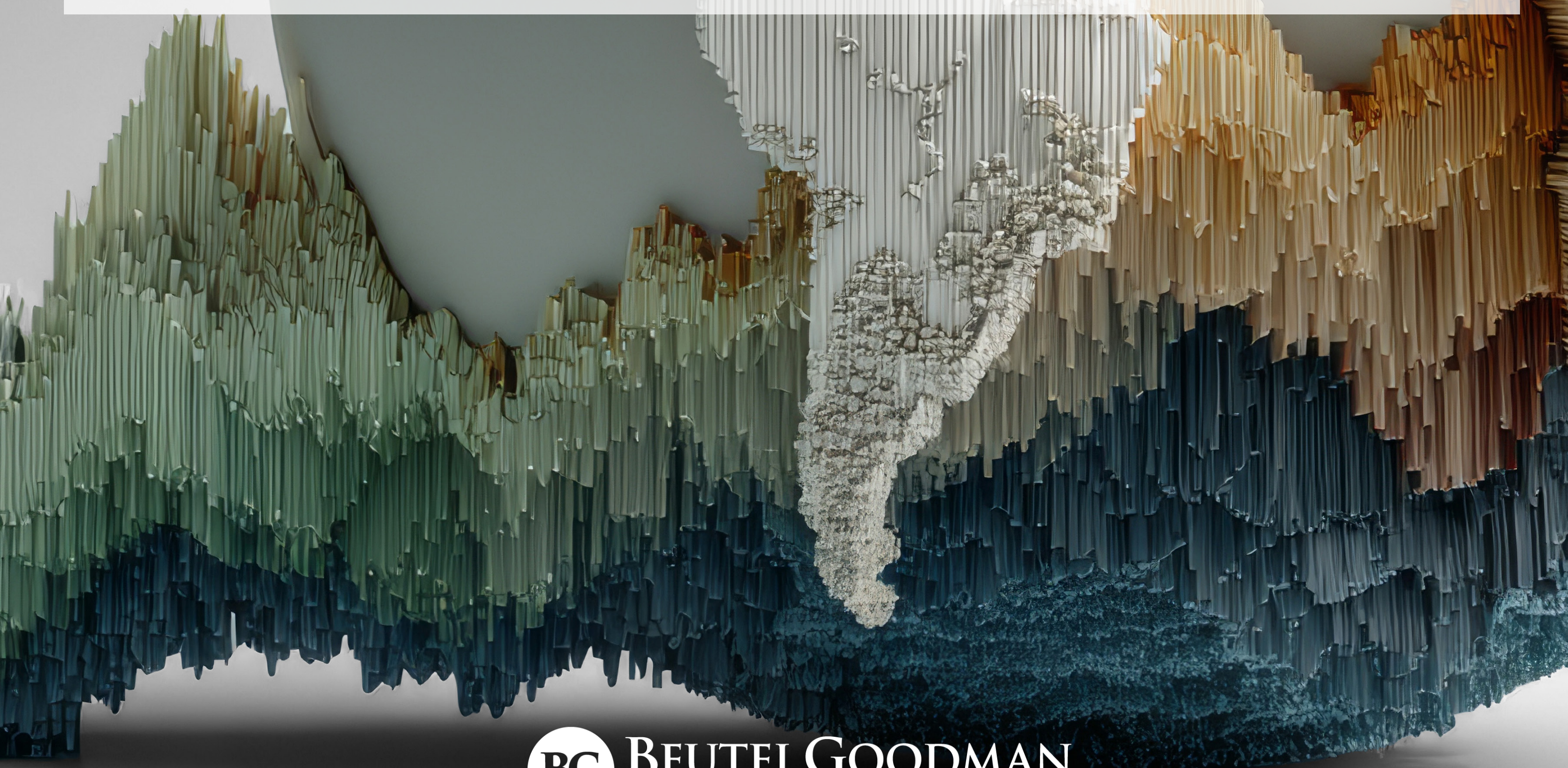
Global equity benchmarks play a central role in portfolio construction, risk assessment and performance evaluation. But over time, the structure of these benchmarks has evolved in ways that may no longer reflect how global economic activity or investment risk look today. Increasing concentration by company, sector, region and investment style raises questions about the extent to which widely used indices continue to provide broad economic representation and effective diversification.

In this paper, we highlight the potential limitations of relying on benchmark-related frameworks to assess risk and diversification, particularly when index weights may increasingly reflect historical market leadership rather than forward-looking opportunity sets. We revisit the core objectives of global equity investing and introduce a fundamentally driven way of thinking about diversification—one that focuses less on tracking an index and more on understanding businesses, valuations and the sources of long-term returns.



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The investment industry has landed on a few major indices as reference standards for corporate activity across the globe. Yet despite the best of intentions, index construction can drift away from its mission as a broad aggregate of economic activity. One can debate whether, strictly speaking, index construction was only intended to reflect investment allocation without regard for the breadth of underlying commerce. However, common use strongly implies necessary risk reduction by diversification.

In smaller markets, with a limited number of global companies, it is common for indices to look extremely different from their country's underlying economy. A good example of this was Finland's index, with a 70% weight in Nokia at the turn of the millennium. Index providers have since incorporated single-stock and sector-weight limits, but these are intended as guardrails against outliers rather than for risk optimization. Even then, limits are arbitrary and can miss fundamental correlations among large index weights.

At Beutel Goodman, we are mindful of these index construction issues; we prefer direct portfolio risk assessments rather than quantifying risk based on how our portfolios differ from indices that may be inherently distorted from their intended representation. We are reminded of British economist Charles Goodhart's adage, summarized as: When a measure becomes a target, it ceases to be a good measure. In other words, naïve reliance on stock indices as a calibration reference is like the fruitless educational practice of teaching only to the test. Many indices are currently approaching their guardrails and, when used imprudently, may increase investor risk.

Here we examine shifts in major indices and how we are adding sector, geographic and return driver diversification to our portfolio through directly understanding the businesses we invest in. Index shifts that we believe warrant further consideration include the following:

- For the past decade, if we look at the MSCI World Index (MSCI World), "global equity" has quietly meant "U.S-heavy growth."
    - o The weight of U.S. stocks in the MSCI World has steadily crept up from 50% twenty years ago to 70% today.
    - o Concentration in the top technology-related companies makes global diversification across 1,300 stocks more optical than real.
- Inadvertently, indices end up "selling low and buying high" across regions and sectors when economic shifts occur.
    - o For example, the previously low weights of Japanese stocks and energy stocks led investors to miss attractive opportunities.
    - o Similar results may continue lagging the trends of deglobalization, increased defense spending, changing healthcare budgets or even AI adoption.

In this context, we attempt to answer: **how *global* is a global equity portfolio today?** And how should we think about portfolio construction and asset allocation from a purely bottom-up perspective?

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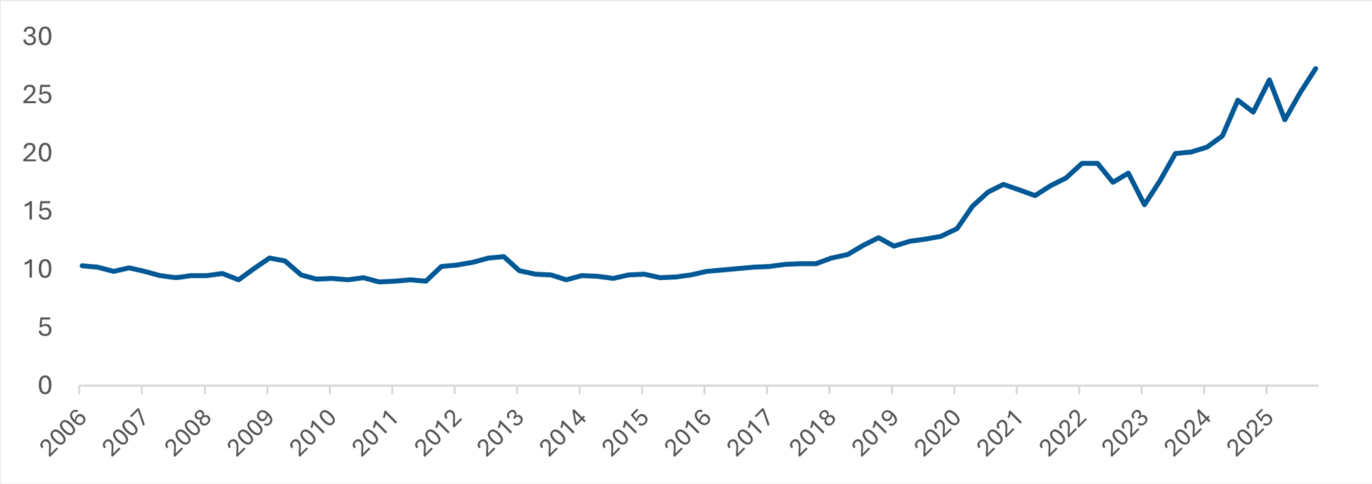
Index versus company activity

We certainly appreciate industry efforts to clarify exposure and the desire for investors to compare portfolio returns in a relative context. That said, to explain why we embrace our own fundamental view of portfolio construction and risk, let us elaborate on known index imperfections.

The top 10 index weights of the MSCI World represented approximately 10% between 2006 and 2018. This number has climbed steadily since then to represent over 25% today, with the top 10 almost entirely comprised of U.S. technology-related names. Technology is pervasive in our daily lives, with most of us attached to our screens; however, society's spend (both discretionary and non-discretionary) on a wide variety of items spanning shelter, food, travel, transportation and utilities, is dramatically more diverse than the index would suggest.

Exhibit 1: Top 10 MSCI World weights (%) as of year ends, 2006-2025



Source: Bloomberg

Beyond the top 10 weights, a widely used statistical measure of concentration covering an entire distribution is the Herfindahl-Hirschman Index (HHI), calculated as the sum of squared constituent weights as percents. A higher number reflects a more concentrated weighting distribution. The MSCI World's HHI reached 111 as of September 30, 2025, nearly four times what it was 20 years ago. Reversing the calculation, this HHI of 111 would match an equal-weighted portfolio of 90 stocks. We find this a surprisingly low count considering that the MSCI World has over 1,300 constituents.

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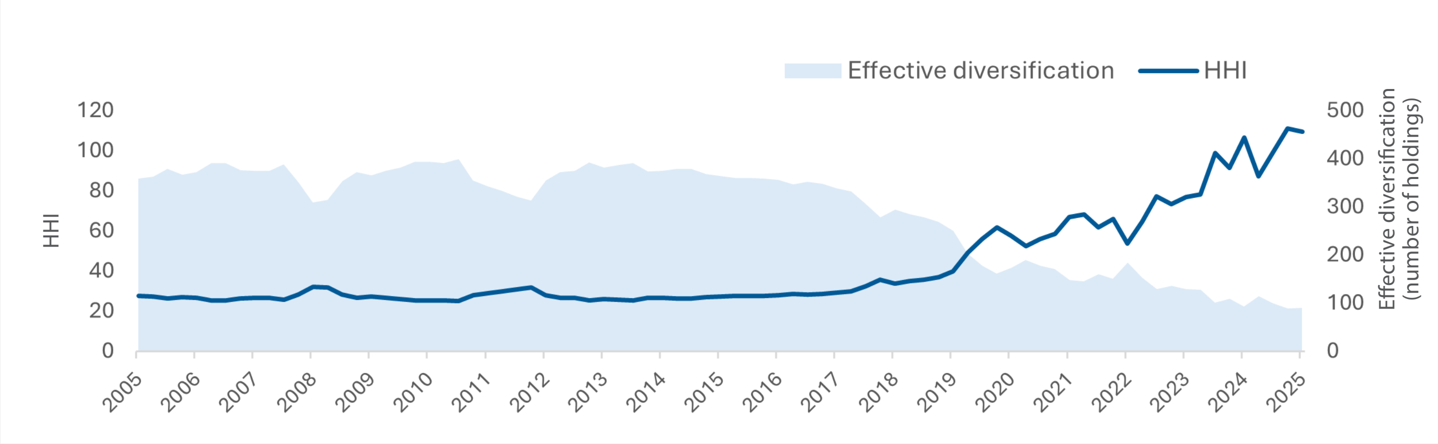
Exhibit 2: HHI and effective diversification of the MSCI World over time



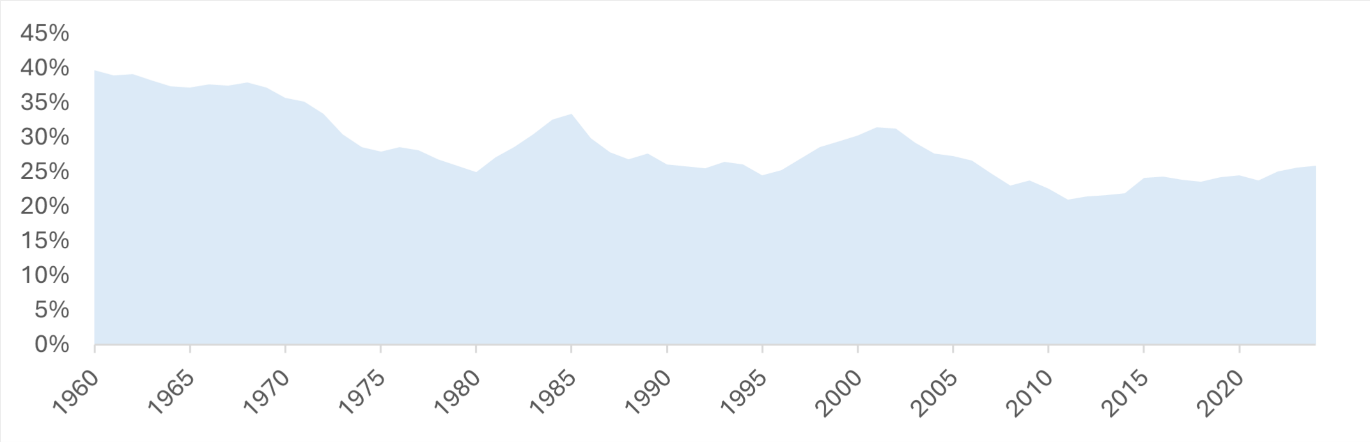
Source: Bloomberg, December 31, 2005 to December 31, 2025

Index versus geographic activity

Beyond company concentration, as mentioned above, the U.S. now represents over 70% of the MSCI World, up from 50% twenty years ago. The gap between index representation and economic activity has always existed with regional differences among corporate decisions whether to issue public equity. However, this gap may become increasingly relevant in a world of fragmented trade, industrial policy and shifting capital flows. During globalization, multi-national companies overlapped in more markets, so the location of their headquarters alone did not necessarily provide much diversification. In reverse, it will matter more.

A bigger index loss may be the economic growth across the world's population over the past three generations. For reference, the U.S. currently accounts for ~25% of global GDP measured in nominal USD terms (less if measured in Purchasing Power Parity (PPP) terms). This number is down from ~40% in 1960 as the rest of the world converged toward the middle class.

Exhibit 3: U.S. share of global GDP (USD)



Source: World Bank, December 31, 1960 to December 31, 2024

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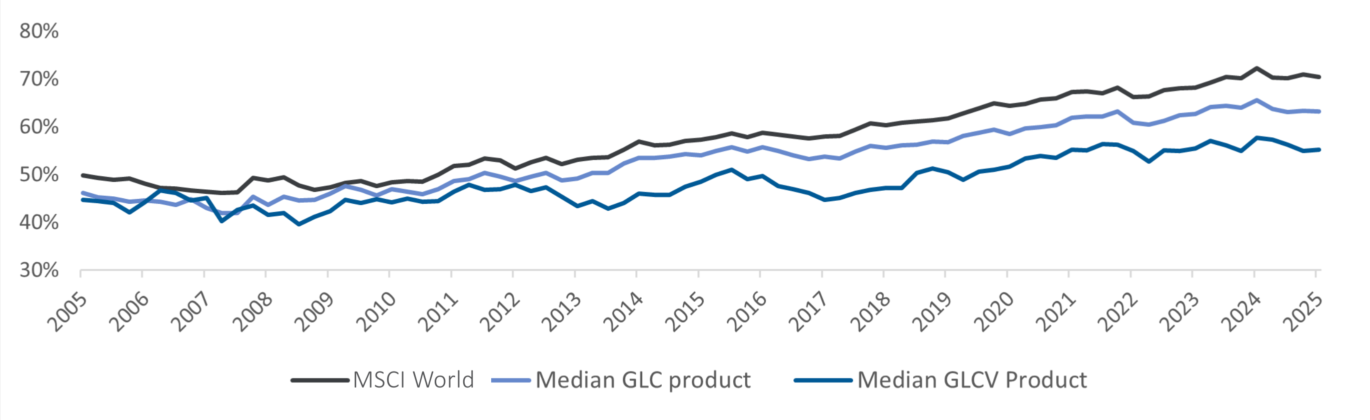
Based on available geographic segment revenue data, companies in the MSCI World report 58% of revenues derived from the U.S. (Source: Bloomberg, as of December 31, 2025). While this number is more balanced than the 70% weight of U.S. companies in the index, it still vastly overstates the U.S. share of global GDP. A global portfolio tracking the index today is making an implicit bet on U.S. growth and continued U.S. exceptionalism while being underexposed to regions and industries that could provide true diversification.

Exhibit 4: U.S. allocation within the MSCI World, the median Global Large Cap and the median Global Large Cap Value portfolio



Sources: eVestment, Bloomberg. Data January 1, 2005 to December 31, 2025. GLC = Global Large Cap; GLCV = Global Large Cap Value are eVestment universes.

Index versus investment styles

Related to geographic exposures, the Value versus Growth dichotomy is stark in the U.S., with sector composition contributing to wide performance differences. This style differentiation as measured by valuation is not as wide across developed non-U.S. (EAFE) markets. With U.S. markets at 70% of the MSCI World and 25x earnings, towards the top of their historical averages and creeping into Growth territory, the global index no longer offers meaningful exposure to Value.

We compare the oft-used Russell style indices for U.S. stocks to the MSCI EAFE below. Consider the top three sectors by index:

Exhibit 5: Top 3 sectors, MSCI EAFE versus Russell 1000

MSCI EAFE Index	Weight	Forward P/E	Last 12M Rev Growth
Financials	25%	12x	2%
Industrials	19%	22x	11%
Health Care	11%	18x	9%

Russell 1000 Index	Weight	Forward P/E	Last 12M Rev Growth
Information Technology	31%	26x	27%
Financials	13%	16x	6%
Communication Services	10%	28x	19%

Source: Bloomberg, data as of March 31, 2026. Forward P/E ratios based on Bloomberg forward 12M consensus estimates.

Intuitively, **EAFE equities (even EAFE Growth) offer more Value attribution**. Looking at Bloomberg's adjusted index P/E below, we note that the MSCI EAFE Growth is cheaper than the broad U.S. index (Russell 1000).

Exhibit 6: EAFE versus U.S. style index valuation

	EAFE (MSCI)	U.S. (Russell)
Broad index	17x	26x
Value index	14x	21x
Growth index	23x	33x

Source: Bloomberg, data as of March 31, 2026

With typical Value style characteristics, a solid allocation to EAFE stocks can provide a strong anchor in the context of a traditional Value mandate, in addition to risk-reducing diversification in the context of a heavily U.S. / Technology-skewed benchmark.

Beutel Goodman's approach

Considering the above, particularly with respect to company and related sector concentration, we provide an example below of how our fundamental portfolio construction offers enhanced diversification and return opportunities compared to the index.

Let us reexamine the HHI for a moment. Consider the top five sectors in the MSCI World displayed in the table below. Using **Information Technology** as an example, the data reads as follows: "The 142 stocks in the sector behave like an equal-weighted portfolio of 10 stocks." Looking through, this means the sector is heavily dominated by a few large weights (within Information Technology, the three largest stocks—Nvidia, Apple and Microsoft—account for 52% of the overall sector). Not only is the sector weight unusually high, but company weightings within the sector are as well.

Exhibit 7: MSCI World sector concentration statistics

	Weight	Number of constituents	HHI	Effective diversification
Information Technology	25.7%	142	1006	10
Financials	16.3%	233	157	64
Industrials	11.8%	257	103	97
Health Care	9.6%	117	313	32
Consumer Discretionary	9.3%	125	1014	10

Source: Bloomberg, data as of March 31, 2026

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At Beutel Goodman, we have the flexibility to build purely bottom-up portfolios; this allows constituent holdings to dictate the weight of sectors while meaningfully deviating from indices. Below we focus on two sectors that currently offer stark differences when compared to the MSCI World index:

- **Health Care**, our largest overweight at +10.4% versus the MSCI World, but still a lower absolute weight than the MSCI's largest sector
- **Information Technology**, a sector in which our holdings are very different than the index's "heavy weights," and which happens to be our largest underweight (-7%)

Health Care

Recent investor concerns around U.S. policy (e.g., appointment of RFK Jr., discussions of government program funding cuts, drug pricing), traffic and trade, and blockbuster drug patent cliffs have weighed on Health Care stocks. In a U.S. investment context, used to capture wider biotechnology and non-government service businesses, the sector recently bottomed out at 8.9% of the S&P 500 Index as of September 30, 2025, its lowest representation in 20 years. In a global context, Health Care currently represents less than 10% of the MSCI World. Considering its diversification, the demographic tailwinds and high potential for innovation, Heath Care has historically proven fertile ground for Quality- and Value-oriented stock pickers like Beutel Goodman.

Exhibit 8: Health Care exposure and valuations in the BG World Focus Equity Strategy as of March 31, 2026

Company	Region	Weight	Forward P/E	Free Cash Flow Yield	Net Debt/ EBITDA	5Y Avg Return on Equity	Div Yield
Roche	International	4.2%	15x	6.1%	0.7x	40%	3.1%
Medtronic	U.S.	4.0%	14x	5.2%	2.0x	8%	3.3%
Elevance	U.S.	3.0%	11x	7.5%	2.3x	16%	2.4%
Amgen	U.S.	2.9%	16x	7.3%	2.7x	98%	2.9%
GSK	International	2.6%	11x	7.6%	1.2x	30%	3.2%
Cencora	U.S.	1.8%	17x	4.8%	1.2x	N/A	0.8%
Becton Dickinson	U.S.	1.5%	12x	8.0%	2.9x	6%	2.7%
BG		**20.0%**	**13.6x**	**6.5%**	**1.5x**	**33.9%**	**2.8%**
MSCI World		*9.6%*	*16.8x*	*5.2%*	*1.4x*	*27.2%*	*1.9%*

Source: Beutel Goodman, Eikon, Bloomberg

Our Pharmaceutical and Biotechnology holdings share commonalities around their research and innovation focus, the depth of their pipelines and track records of navigating patent expirations. Issues we assessed as temporary allowed us to buy into **Roche, Amgen** and **GSK**, stellar franchises trading at discount multiples. These companies remain core positions in our Global portfolio thanks to solid or improved execution and continued competitive advantages. **Medtronic, Elevance** and **Cencora** offer exposure to other less-correlated areas of the Health Care ecosystem like medical devices, U.S. health insurance and U.S. drug wholesale, respectively. In our assessment, the companies we have chosen in this sector present enduring Quality Value characteristics that include attractive earnings and cash-flow multiples, low leverage, strong returns (ROE/ROIC) and healthy dividend yields.

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Not only are we finding thriving businesses at modest valuations in Health Care, but these investments are providing beneficial portfolio diversification.

Information Technology

Information Technology is the sector with the biggest relative underweight in our Global portfolio (-7.1%), although it is still a large weight at 18.6%. Recently, AI's development speed has in our view forced investors to attempt to predict, rather hastily, winners and losers.

With a few rare exceptions, our holdings have either been neglected as having only tenuous links to AI, or discarded, rather hastily, as "AI losers." Instead, we see a diverse group of holdings across hardware, software, semiconductors and IT services, with a diverse set of growth drivers and AI optionality; most are available at stark discounts to corresponding sub-industry multiples.

Exhibit 9: Information Technology exposure, return drivers and valuations as of March 31, 2026

Company	Sub-sector	Return Drivers	Valuation*
Qualcomm (QCOM)	Semiconductors	Handset sales/content gains/premiumization AI and datacentre opportunity Margin improvement, capital returns	QCOM: 12x *MSCI World: 22x*
Infineon (IFX)	Semiconductors	Cyclical upturn Electrification of auto and power grid Datacentre, industrial automation expansion	IFX: 20x *MSCI World: 22x*
Applied Materials (AMAT)	Semi Equipment	Demand growth for semiconductor content/chip complexity AI (focus on power consumption) Increase of profitable services business	AMAT: 28x *MSCI World: 33x*
Gen Digital (GEN)	Systems Software	Cybersecurity and ID protection in AI age Diversification/acquisition strategy Strong profitability and operational leverage	GEN: 7x *MSCI World: 23x*
Amdocs (DOX)	IT Services	Digital transformation w/cloud migration Telecom-specific AI apps Operational leverage and capital returns	DOX: 8x *MSCI World: 16x*
Cap Gemini (CAP)	IT Services	Cyclical upturn Growth of IT Services spend including AI Continued margin and ROIC improvements	CAP: 8x *MSCI World: 16x*
NetApp (NTAP)	Hardware	General enterprise IT spending AI data / workload spending Margin improvement and shareholder returns	NTAP: 12x *MSCI World: 27x*

*Source: Beutel Goodman, Eikon, Bloomberg. *Valuation data (forward P/E based on Bloomberg estimates) for following sub-industry groups: Semiconductors (QCOM, IFX), Semiconductor Materials & Equipment (AMAT), Systems Software (GEN), IT Consulting & Other Services (DOX, CAP), Tech Hardware, Storage & Peripherals (NTAP). These are current Information Technology holdings in World Focus Equity as at March 31, 2026. Past performance is no guarantee of future results.*

As with Health Care, we are finding thriving businesses in IT whose stocks are trading at modest valuations and providing beneficial portfolio diversification.

Applying Beutel Goodman's Investment Principles

To provide suitable economic representation and long-term resilience, we believe a truly global portfolio today may need to be less index-like and more structurally aware, valuation-sensitive and deeply grounded in bottom-up fundamental analysis along the following principles:

- **Regional and sector allocations should reflect underlying investment opportunities, not simply past winners.**

Using sectors as an example, the Beutel Goodman World Focus Equity portfolio has tended to underweight certain sectors because of our quality focus. We typically avoid extraction industries among both Materials and Energy due to lack of product differentiation and continuous depletion; REITs and Utilities given the balance sheet leverage typically necessary to generate returns on equity; and most banks due to their lack of differentiation and intrinsic leverage. On the positive side, we tend to be biased to sectors that can afford higher returns with lower leverage and tend to have better management alignment with shareholders, such as Industrials, Health Care, Information Technology, Consumer Staples, Consumer Discretionary and Communications Services. Even with this "structural avoidance," our largest sector weight is currently Financials at 21.8%, which is lower than the largest MSCI World sector weight (Information Technology) at 25.7%.

- **Policy, sectoral and geopolitical shifts are captured through company-level analysis.**

Our portfolio is not static; it adapts when new opportunities arise. We have flexibility to increase or decrease our exposures based on where we see value. That said, there is no benefit, in our opinion, to diversifying into overvalued companies or partaking in "themes" that devolve into chasing share price momentum. With the examples shown above in our group of Information Technology stocks, we still have exposure to AI and datacentre expansion, but our theses rest on demonstrated successes at modest valuations rather than speculative concepts.

As a geographic example, our allocation to U.S. stocks in the Beutel Goodman World Focus Equity portfolio has averaged 52% over the past 10 years. It has been as low as 28% (in June 2017) and as high as 65% (in December 2022), when our U.S. stocks provided strong downside protection in a volatile year, thereby increasing their weight in the portfolio.

- **Regional competitive advantages should help the portfolio.**

When evaluating the quality of existing and prospective holdings, competitive moats are critical in our analysis. We look for companies with large and defensible competitive positions in key markets, both by product and geography. In the current context of deglobalization and trade protectionism, we are monitoring regional competitive positions with particular focus. Investing in companies with large and defensive competitive positions in key markets can provide better stability of returns than a heavily U.S.-weighted index without this focus.

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Examples of non-U.S. holdings where we find relevant competitive advantages include **DBS**, Singapore's largest bank. Unlike sprawling multinational banks that have often destroyed shareholder value through relentless expansion, DBS has diversified into a limited number of overseas markets, focusing on core businesses, geographies and customers, and positioning itself as a regional champion that should continue to ride trade, investment flow and wealth growth in Southeast Asian markets. **Euronext**, Europe's leading equity trading venue, has made significant investments in its advanced trading platform to sustain market share gains and consolidate its European footprint. **SMC**, one of the largest pneumatic component suppliers, possesses significant advantages in core Asian markets, including a broad product range, extensive local sales and service networks, and regional manufacturing facilities.

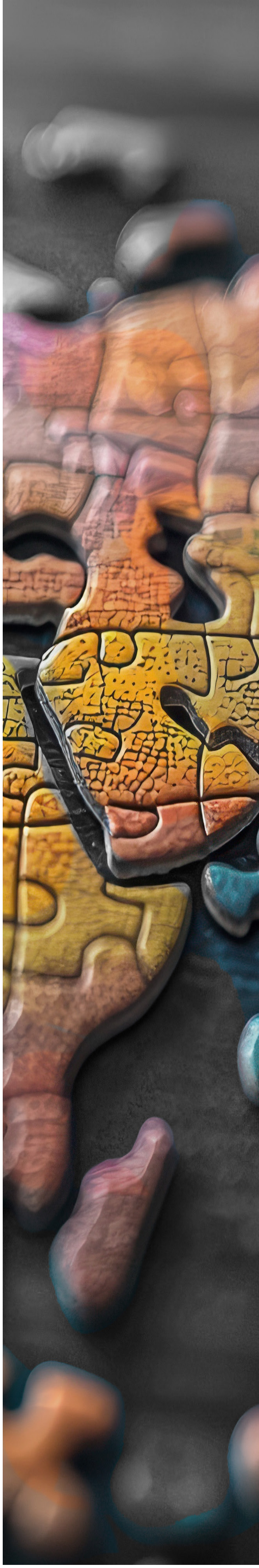
- **Diversification of equity return drivers counts, especially in extended markets.**

In a Growth-obsessed world and with stocks trading near all-time highs, our focus remains on finding and owning quality companies trading at attractive valuations. We look for companies that are generating sustainable free cash flows, and we refrain from speculating, especially when unknowable factors are critical to the outcome. The Beutel Goodman World Focus strategy represents a diverse portfolio of what we assess are resilient companies trading at attractive valuations (13.2x forward earnings, 6.6% free cash flow yield).

For an additional measure of quality, we look at the portfolio's total shareholder yield (net buyback yield + dividend yield). At 4.0%, the World Focus portfolio's total shareholder yield is meaningfully higher than the MSCI World yield of 1.9%; this is evidence of strong free cash-flow generation and conversion, sound capital allocation and balance sheet discipline. These factors in turn enhance expected return sources as well as support downside resilience.

Conclusion

Our premise as bottom-up investors is that individual company attributes, rather than the composition of an imperfect index, dictate representation in our Global equity portfolios. Investment weights are then actively managed to provide a sensible diversification across industry and geographic exposures. This results in a portfolio that offers broader sources of investment returns than the "currently not so" broad global index.



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