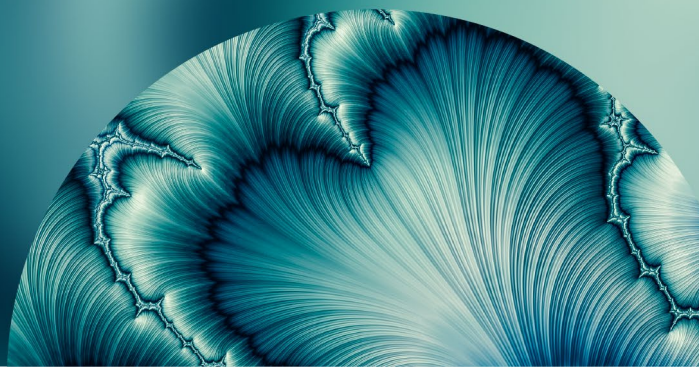
Client engagement | Client story

October 2026

Reducing large-cap concentration risk in a sustainable index



"We didn't want to reduce our exposure to the US equity market arbitrarily. But we were concerned about extreme levels of concentration in the market. We wanted to rely less on a small number of companies, helping improve resilience and broadening the sources of return within the portfolio."

Anthony Odgers, Chief Financial Officer, Cambridge University
Heather Davis, Head of Group Treasury, Cambridge University

UNIVERSITY OF CAMBRIDGE

About the client

Profile

Cambridge University was founded in 1209 and is the fourth-oldest university in the world. It has more than 24,000 students from over 140 countries. Its members have won 126 Nobel Prizes.

Objectives

Cambridge University sought to improve the resilience of a sustainable equity portfolio within the Cambridge Multi-Asset Fund by reducing US equity concentration risk.

Solution

The FTSE Custom Developed TD 400 TPI Climate Transition Index applies a targeted diversification uplift to the market index, keeping its overall climate and SI profile largely intact.

Client profile

The University of Cambridge was founded in 1209 and is the fourth-oldest university in the world.

The Cambridge Multi-Asset Fund (CMAF) is a managed investment account run by an external investment firm on behalf of the University and including index-tracking portfolios. The CMAF provides an investment vehicle for funds likely to be needed for operational purposes in a 3- to 5-year period. At 31 July 2025, the CMAF had a value of £524.2m.

One of the index funds used by the CMAF tracked the FTSE TPI Climate Transition Custom Developed ex Weapons ex FF Reserves (>50%) ex Tobacco index. This index is a custom, sustainable investment (SI) version of the FTSE Developed index, a market capitalisation-weighted index representing the performance of large- and mid-cap companies in 25 developed equity markets.

The FTSE TPI Climate Transition Custom Developed ex Weapons ex FF Reserves (>50%) ex Tobacco index combines tailored exclusions (weapons, fossil fuel reserves exceeding a >50% threshold, tobacco companies and standard FTSE minimum ESG and controversy exclusions) with a climate weighting methodology developed in collaboration with the Transition Pathway Initiative (TPI).

FTSE Custom Developed TD 400 TPI Climate Transition Index

This index applies a targeted diversification uplift to the market capitalisation-weighted benchmark (the FTSE Developed index) to reduce its inherited concentration.

The refined version is then used as a new starting point for the Transition Pathway Initiative (TPI) methodology.

These design steps enhance the final index's structural diversification while keeping its overall climate and sustainable investment (SI) profile largely intact.

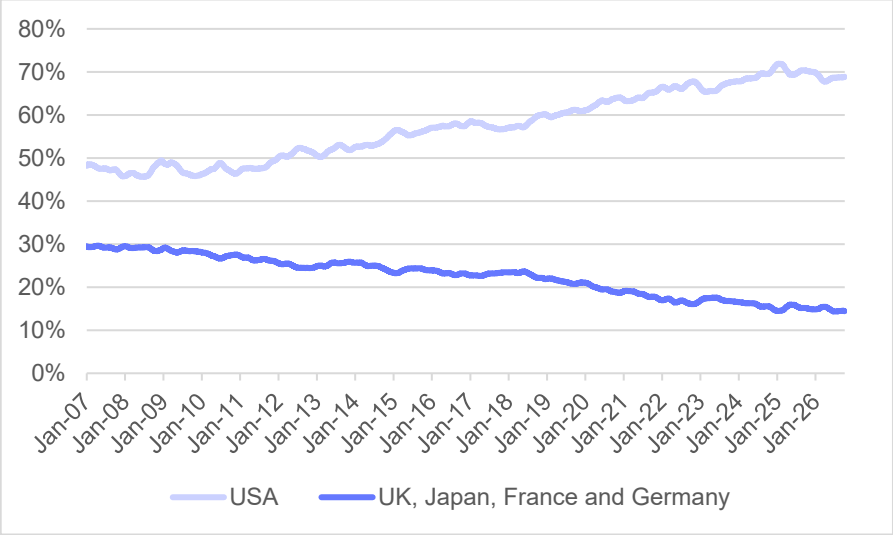
Reduced diversification in global equities

One of the challenges faced by investors in a fund using a market capitalisation-weighted global equity index as a benchmark is that such an index has become progressively more concentrated in three ways: in US equities, in the US equity market's Technology industry and in a small number of large-capitalisation stocks within that industry.

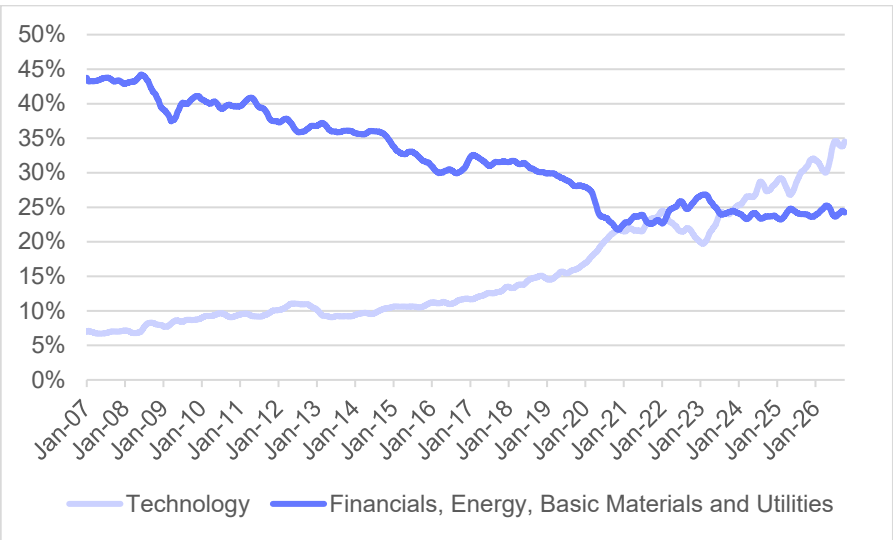
For example:

- Between 2007 and 2026, the weight of the United States within the FTSE Developed index increased by 20.6 percentage points (from 48.3% to 68.9%);
- Over the same period, Technology quintupled its index weight (to 34.5% of the FTSE Developed index), at the expense of traditional industries such as Financials, Energy, Basic Materials, and Utilities, which collectively declined from representing 43.7% to 24.2% of the index;
- The cumulative weight of the top 10 constituents in the FTSE Developed index expanded from 9% in 2007 to 26% by October 2026, a notable departure from historical norms and introducing heightened idiosyncratic risk exposure within what traditionally functioned as a highly diversified index.

Increased US dominance within the FTSE Developed index



Increased Technology weight within the FTSE Developed index



Cumulative weight of largest ten stocks in the FTSE Developed index



Source: FTSE Russell, 1/1/2007-5/10/2026.

A precision tool to mitigate index concentration risk

FTSE Russell's Target Diversification framework provides institutional investors with a precision tool to mitigate concentration risk while preserving the essential characteristics of market-cap exposure. At its core, this innovative solution comprises two key elements:

- **The FTSE Russell Diversification Factor** – This is an intuitive metric that quantifies diversification in terms of an equivalent number of equally weighted stocks. For example, a FTSE Russell Diversification Factor of 400 represents an index with the same diversification characteristics as 400 equally weighted stocks. This measure provides a mathematically rigorous assessment of concentration that is both theoretically sound and intuitive.
- **The Target Diversification Algorithm** – This straightforward methodology applies a non-linear transformation to the starting index weights and maintains market representation while achieving the desired diversification level. Unlike factor-based approaches that require complex risk models, the FTSE Russell Target Diversification algorithm operates directly on constituent weights through a function that has been derived by extensive empirical research to minimise distortions.

Greater structural diversification with a preserved climate and sustainable investment (SI) profile

In 2026, the CMAF decided to transition the index underlying one of its externally managed passive funds from the FTSE TPI Climate Transition Custom Developed ex Weapons ex FF Reserves (>50%) ex Tobacco index to the FTSE Custom Developed TD 400 TPI Climate Transition index.

Additional information

Further information on FTSE Russell's Target Diversification Strategy is available at:

Target Diversification | FTSE Russell

The FTSE Custom Developed TD 400 TPI Climate Transition index achieves two goals simultaneously:

- It applies a targeted diversification uplift to the market capitalisation-weighted benchmark (the FTSE Developed index) to reduce its inherited concentration;
- The refined version is then used as a new starting point for the Transition Pathway Initiative (TPI) methodology, keeping the index's overall climate and sustainable investment (SI) profile largely intact.

By making this index switch, the CMAF's objective is to reduce reliance on a small number of large-cap US tech companies to generate performance and to contribute to the improved long-term resilience of the fund's equity portfolio.

ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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