CONCENTRATION OF THE SOUTH AFRICAN EQUITY MARKET

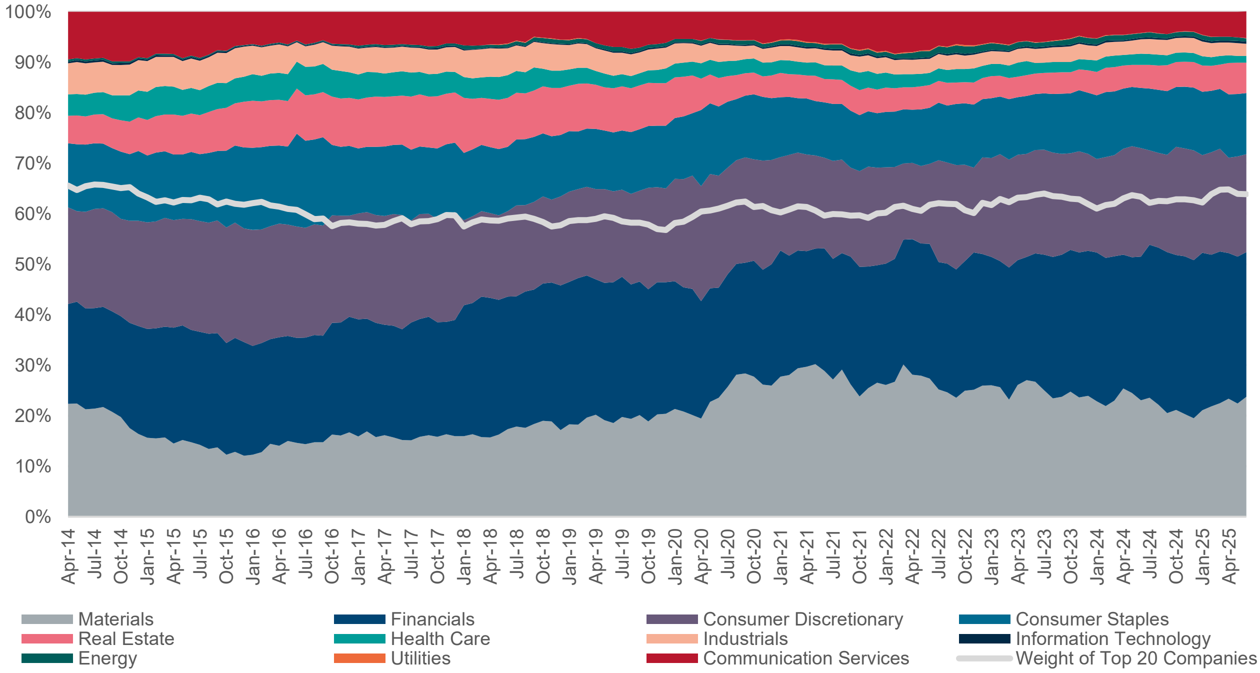
30 JUNE 2025

Navigating Market Concentration Amid Domestic and Global Headwinds

Over the past two decades, the South African equity market has undergone a profound transformation, evolving into one of the most concentrated major markets globally. Once characterised by a broad sectoral spread, the Johannesburg Stock Exchange (JSE) has contracted significantly, shrinking from over 600 listed companies in 2001 to just 269 by 2024. This decline has resulted in an increasingly narrow market dominated by a few large-cap stocks, including Naspers/Prosus, global resource giants, and large financial institutions, which collectively account for over 60% of the JSE All Share Index's value.

Several structural and cyclical challenges have driven this shift. Persistent economic headwinds, governance concerns, and subdued domestic growth have contributed to foreign capital flight and reduced investor confidence. Delistings, driven by private equity buyouts, mergers, and management-led transactions, have eroded the investible universe. Infrastructure constraints (particularly in energy and logistics), political uncertainty, and the country's grey list status issued by the Financial Action Task Force have further undermined the appeal of local capital markets. These developments have prompted many firms to opt for alternative capital structures or overseas listings. The result is a stock exchange increasingly dominated by a handful of companies. Once well-diversified across sectors and capitalisations, the JSE's market capitalisation has become skewed toward large-cap stocks in mining, tech, and financial services. This growing concentration reflects broader structural weaknesses in the domestic economy and a declining ability to attract and retain growth-oriented companies. In turn, these changes highlight the increasing appeal of international markets for both issuers and investors seeking diversification and stability.

Figure 1: Sector Allocation Within the South African Equity Market and Concentration of Top 20 Market-Cap Stocks

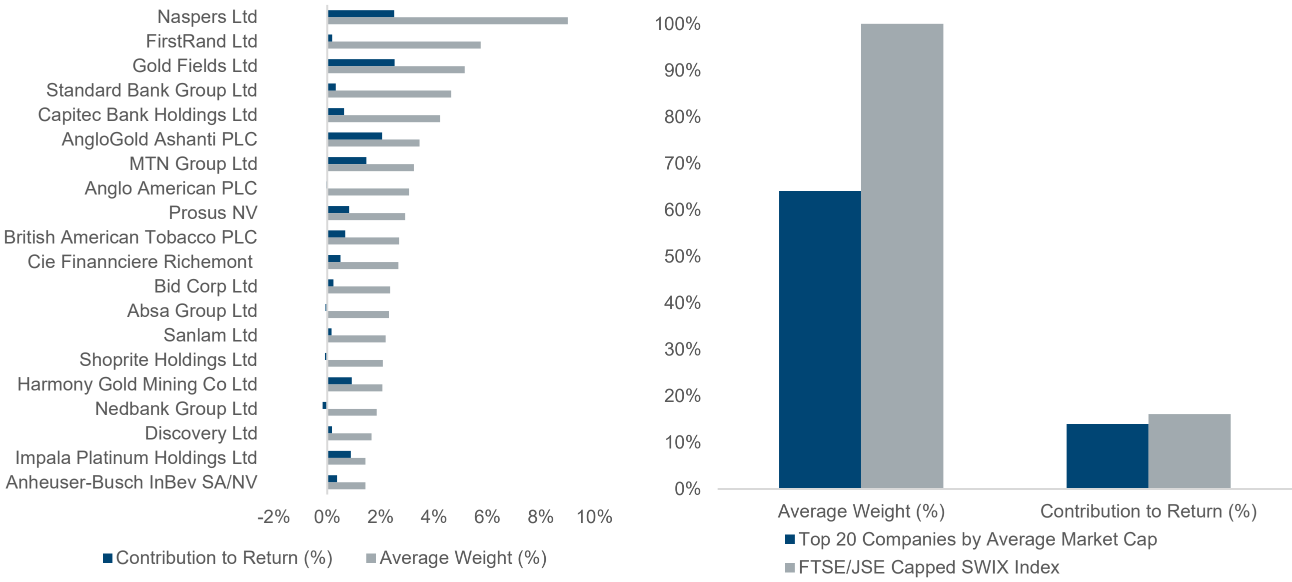


Source: Bloomberg

The implications of this concentration are widespread. With fewer companies representing a larger share of total market value, index dependency has grown, and systemic risks have become more pronounced. Active managers face reduced diversification opportunities, and market volatility is increasingly tied to the fortunes of a small group of stocks. While market cap-weighted indices naturally reflect economic leadership, excessive concentration can impair risk-adjusted returns, reduce liquidity, and deter new listings. Smaller and mid-cap firms, though often more sensitive to local economic trends, have limited influence on index returns. For investors, this means that traditional diversification across sectors or company sizes is no longer as effective locally, making thoughtful allocation decisions more critical than ever.

Recent performance trends underscore this challenge. As of the end of June 2025, the top 20 stocks by market capitalisation contributed over 80% of the FTSE/JSE Capped SWIX Index's year-to-date (YTD) 16.1% return. Leading the charge were gold miners, including Gold Fields, AngloGold Ashanti, and Harmony Gold, which benefited from surging gold prices amid global uncertainty and increased safe haven demand. In addition, platinum producers such as Impala Platinum, Sibanye Stillwater, and Northam Platinum delivered meaningful contributions, driven by rising commodity prices, despite their relatively smaller index weights. Beyond the strength in commodities, tech and telecom giants such as Naspers, Prosus, and MTN played a meaningful role in driving index gains. These companies alone delivered a disproportionate share of market returns. While the capped SWIX methodology limits individual stock weights to limit concentration risk, it remains exposed to sectoral return concentration. This has implications for risk management and performance attribution, as sector-specific drivers such as commodity price swings introduce volatility. Despite capping mechanisms, the market remains vulnerable to the outsized influence of a few stocks, especially those in cyclical or globally sensitive sectors.

Figure 2: Top 20 Stock Contributors to FTSE/JSE Capped SWIX YTD Returns (as of 30 June 2025)



Source: Bloomberg

For active managers, this environment presents a challenge. Large-cap rallies are difficult to match without overweight exposure to dominant names, yet such positions may conflict with risk limits or diversification mandates. Conversely, in periods of large-cap underperformance, active managers tend to outperform. This reflects a broader dilemma: maintaining sufficient exposure to index-heavyweights risks breaching diversification and risk thresholds, yet underexposure can lead to short-term underperformance. This volatility asymmetry underscores the need for robust portfolio construction and adaptive strategies.

Importantly, this environment amplifies the asymmetry between passive and active strategies. Narrow, large-cap-led rallies favour index-linked approaches, while broader, more cyclical recoveries support differentiated active exposure. Our managers continue to navigate this trade-off carefully, maintaining diversified portfolios with a focus on valuation discipline and forward-looking fundamentals. In an increasingly narrow and externally driven equity landscape, investors must remain vigilant.

In today's increasingly concentrated market environment, marked by commodity-driven volatility and domestic structural challenges, a core-satellite approach allows us to stay benchmark-aware while managing risk proactively. Our 35% passive core ensures efficient market alignment, complemented by a 32.5% active core targeting consistent alpha within defined risk parameters. The remaining 32.5% satellite exposure offers tactical flexibility across niche and style-specific opportunities. This framework helps balance benchmark alignment with active risk control, mitigating downside exposure while allowing for participation in large-cap rallies. Investors must prioritise risk-aware diversification, sector sensitivity, and macro resilience, especially given the current commodity-linked volatility and South Africa's structurally constrained growth outlook.

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