

BGF US Flexible Equity Fund

Seeking to capture alpha opportunities in US equities

The concentration paradox

Redefining "Core" in an era of mega-cap dominance

For decades, investors, allocating to the index meant buying a representative slice of the American economy and experiencing broad exposure to companies in every corner of the market. More recently, a structural shift has occurred: The index has transitioned from a broad-based basket into a more lopsided cohort of growthier companies, creating a difficult environment for those who expect or require the index to play a specific role within a portfolio.

The rise of the few

As we move through 2026, the "Magnificent Seven" account for 34% of the S&P 500 Index today.¹ When seven companies represent more than a third of the 500-stock index, the "other 493" become statistically diluted. For financial professionals, the S&P 500 is no longer the neutral "Core" exposure that it once was. While we expect the market to broaden this year — and mega-cap performance to diverge — we also expect the distortions caused by this concentration conundrum to persist.

The feedback loop

This concentration predicament is fueled by a structural "momentum loop." As flows pour into market-cap-weighted indices, more capital is automatically diverted to the largest names regardless of their underlying valuation or fundamental health. This herding effect may create a market environment where price discovery is driven by liquidity rather than quality, further distorting indices once considered to be the pinnacle of "diversification."

The architect's dilemma

Unintended consequences for allocators

Investors tend to rely on predictable asset class behavior, balancing risk factors — value, growth, quality and size — to create resilient outcomes. However, index concentration introduces hidden risks that can compromise a model's integrity.

The "shadow" growth tilt

Most models may assume a "Core" allocation is style neutral. Today, the S&P 500 is heavily skewed toward large-cap growth. If a model includes a dedicated growth satellite alongside an S&P 500 core, it may be double-dipping into the same risk factors. A pullback in tech valuation multiples may, therefore, impact a model's *conservative* core just as hard as its *aggressive* satellite.

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¹Source: Bloomberg, 17 April 2026

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False security in diversification metrics

Low volatility at the index level often masks high idiosyncratic risk. When leadership is this narrow, a single earnings miss from one mega-cap name can trigger "cliff risk" – a sharp, sudden drop that may entangle other, seemingly unrelated companies in the periphery. This risk could become more prominent in a world where the investment community reacts quickly to headlines and sorts through the details later. This year, the software industry has experienced tremendous pressure as investors grapple with concerns that artificial intelligence (AI) could disrupt traditional business models faster than revenues can adapt. While AI promises long-term productivity gains, it has also raised fears of pricing pressure, shorter product cycles, and the commoditization of legacy software offerings. As a result, uncertainty around winners and losers has weighed on sentiment, even as fundamentals remain solid for select, well-positioned companies. Hidden risks are sure to emerge in other industries.

The rebalancing

This predicament may force model builders into a binary choice: stay invested in a part of the market that may feel overcrowded — or move elsewhere and miss potential gains. This lack of "middle ground" makes it difficult to manage risk without abandoning the equity market entirely or simply doing nothing.

Risk factor	Market-cap-weighted Index (S&P 500)	Model builder impact
Concentration	Top 10 = ~30%-40% of Index	High single-stock dependency
Style bias	Growth/Momentum skew	Unintended overlap with satellites
Valuation	Trading at premium multiples	Lower "Safety Margin" in the core

Restoring balance with active

Active management can serve as a stabilizing mechanism for portfolios experiencing unintended skew. Because cap-weighted index providers allocate in proportion to market value, they can sometimes mechanically increase exposure to *prior* winners, embedding procyclical behavior and potentially amplifying valuation and/or crowding risk when leadership narrows. These distortions may persist as widespread adoption of AI by index constituents differentially enhances scale economies, productivity and competitive positioning — dynamics that can further exacerbate dispersion between AI "haves" and "have-nots," irrespective of near-term fundamentals. In contrast, active managers can impose explicit valuation discipline and diversify sources of return by reallocating capital toward underrepresented segments, mitigating concentration risk and reducing reliance on a single market regime.

Active portfolios can also be engineered to neutralize unintended factor exposures that often accompany high concentration — such as heightened growth, momentum, low volatility or quality tilts — through systematic controls (e.g., factor-aware position sizing, constraints relative to a multifactor risk model, and targeted hedges).

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By decoupling security selection from embedded index factor bets, active management can seek more robust, fundamentally anchored returns and a risk profile that is less contingent on the continuation of narrow leadership, all while working to **amplify fundamental views with the aim of driving excess returns**. It's important to note that the bar for active managers in models should remain high and that active managers may not deliver a portfolio — or investment process — that is capable or differentiated enough to stand alongside indices in a broader portfolio.

A Core Solution

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To solve the concentration problem, asset allocators may search for a portfolio tool that enables them to better focus large-cap exposure without the baggage of index crowding. The **BGF US Flexible Equity Fund** is an active, high-conviction mutual fund designed to be the antidote to a top-heavy portfolio.

A differentiated core

BGF US Flexible Equity Fund departs from the "market-cap-at-all-costs" mentality. Instead of mirroring the benchmark, it leverages fundamental insights enhanced by quantitative tools to identify underappreciated companies with differentiated earnings and strong business fundamentals.

Portfolio Managers' current process, which is subject to change without notice

Fundamental x systematic: At the heart of the Fund are systematic tools, dashboards and optimizers that help the team to construct a portfolio that expresses high-conviction, stock-specific insights while seeking to mitigate style and macro exposure. A proprietary portfolio management screen, grounded in financial theory and real-time stock selection, systematically ranks ideas based on fundamental investing principles. Among the dimensions the team evaluates, particular attention is paid to capturing fundamental quality from three angles and 18 unique factors. This output acts as a scalable checklist, broadening the opportunity set, surfacing overlooked risks and consistently recommending capital toward companies with long-term compounding potential. Combined with a deeply resourced research engine that vets ideas across BlackRock's U.S. Growth and Value teams, the portfolio managers can build an explicit, intentional and relevant strategy capable of pairing well with others in the confines of a broader client portfolio.

Hiding in plain sight: In the U.S., a \$200 billion market cap company represents roughly 25 basis points in the S&P 500, limiting its potential impact on index returns. By comparison, a company of the same size would account for approximately 4% of the STOXX 50 and 1.5% of the STOXX 600. As a result, U.S. index investors receive relatively restricted exposure to high quality large cap companies in this range. The Fund is intentional about identifying these under-owned opportunities, particularly as market dispersion increases. While the Magnificent Seven remain exceptional businesses, return leadership has narrowed, and volatility beneath the index surface has risen materially. Reflecting this dynamic, the Fund currently invests approximately **45% of its NAV outside the top 100 companies** in the S&P 500, with a focused portfolio of 25–60 high conviction holdings. In 2025, over 90% of the portfolio's excess return was driven by companies outside the Mag 7, highlighting the potential for differentiated outcomes beyond the most crowded areas of the market.

Portfolio Managers' current process, which is subject to change without notice. There is no guarantee that a positive investment outcome will be achieved. There can be no guarantee that the investment strategy can be successful and the value of investments may go down as well as up.

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Resilience as a mandate: The fund targets companies with robust balance sheets, sustainable competitive advantages and *truly differentiated* earnings profiles.³ This focus may provide a stabilizing presence and differentiated performance profile when the portfolio is paired with growth-heavy benchmarks.

Conclusion: Reclaiming control

The goal of many wealth management model builders is to design a disciplined, transparent framework that can convert economic and market signals into repeatable, risk-aware investment decision-making on behalf of their clients. By integrating appropriate active solutions — especially as markets change — decision-makers in this space may be able to reduce the **unintended tilts** in core exposures and restore balance to overall models.

Implementation guide: Optimizing the core

Swapping “market beta” for “active resilience”

When an investor identifies that the core equity sleeve has become misaligned, the question is how to rebalance without sacrificing the performance often delivered by large- and mega-cap leaders. The following framework demonstrates ways in which the Fund might be integrated into a standard model.

1. The core-satellite “flip”

In a traditional model, the S&P 500 may be the full 100% exposure to the “core.” In this review, we split away some of that core to manage concentration risk.

Traditional core: 100% S&P 500 (Passive)

Updated core: 75% S&P 500 / 25% **BGF US Flexible Equity Fund** (Active)

The result: By allocating 25% to BGF US Flexible Equity, a portfolio can increase the weight to idiosyncratic names like Cardinal Health Inc, Hasbro Inc and Ciena Corp – companies that have provided diversification benefits but are often ignored by cap-weighted indices, occupying only an ~1.45% weight in the index together.⁴

Source: Morningstar as of 2/28/2026. ³Portfolio Managers’ current process, which is subject to change without notice. There can be no guarantee that the investment strategy can be successful and the value of investments may go down as well as up. The portfolio is for illustrative purposes only, is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or product or to adopt any investment strategy. ⁴The companies referenced have been highlighted as they are current high conviction ideas which have higher active weight in the portfolio versus the benchmark

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2. Side-by-side: The “concentration gap”

Investors may analyze measures like **Active Share**, holdings dispersion or factor profiles to understand the impact of the swap and its ability to dilute top heaviness. If the standalone S&P factor profile remains desirable for an allocator, consider allotting tranches of BGF US Flexible Equity in smaller increments to increase idiosyncratic risk with minimal allocations to factor profiles.

Characteristic	S&P 500 Index	BGF US Flexible Equity Fund
Primary goal	Market beta	Fundamental alpha
Top 15 weight	43.9%	53.68% (High Conviction)
Exposure to Mag 7	Maximum (Cap-Weighted)	Disciplined / Reduced
Number of holdings	500+	25 - 60
Largest positions	Market cap weighted so highly concentrated	Differentiated active weights (Ciena Corp, Cardinal Health, Hasbro Inc etc)

Source: Blackrock, as of 31st March 2026. The portfolio is for illustrative purposes only, is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any financial instrument or product or to adopt any investment strategy.

3. Step-by-step transition

Professional investors managing model portfolios could use these steps:

- 1. Analyze current overlap:** Use a correlation tool to see how much a "Satellite" growth fund is just a mirror of your "Core" S&P 500.
- 2. Define the replacement sleeve:** Consider replacing some of your passive large-cap exposure with BGF US Flexible Equity. This could maintain your large-cap "size" factor while shifting the "style" factor back toward a true blend.
- 3. Monitor idiosyncratic risk:** For model portfolio builders, the tracking error represents the alpha potential and the divergence from the index.

Summary for Clients

The narrative: We have kept our exposure to some of the biggest companies in America, but we are adding a layer of active management to ensure we aren't over-exposed to just seven stocks.

The outcome: A portfolio that looks for growth and earnings differentiation in uncommon places — the “best of the rest” — while maintaining the liquidity and scale of the large-cap universe¹
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Fund-specific risks

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Counterparty Risk, Equity securities, ESG risk (fund screening)

Description of Fund Risks

Counterparty Risk

The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Equity securities

The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

ESG risk (fund screening)

The Fund seeks to exclude companies engaging in certain activities inconsistent with ESG criteria. Investors should therefore make a personal ethical assessment of the Fund's ESG screening prior to investing in the Fund. Such ESG screening may adversely affect the value of the Fund's investments compared to a fund without such screening.

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