HARTFORDFUNDS
Our benchmark is the investor.®

No Problems Concentrating

Market concentration is a worry for many, but investors may want to consider the potential tradeoffs of common solutions.

Our View

Many allocators see mounting concern with the same issue: market concentration. And while equal-weight approaches are one of the more common strategies for addressing concentration risk, they come with their own set of investment risks and baggage. Investors may want to consider if the benefits of the cure (equal weight) outweigh the drawbacks of the disease (concentration) and whether alternate options make more sense.

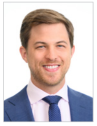
Observations

1. Extreme concentration is a hidden risk that has occurred several times in the past 60 years. What's more, in prior periods of high concentration, the top-five weighted stocks in the S&P 500 Index[1] underperformed their lower-weighted counterparts following the periods of extreme concentration (**FIGURE 1**).
2. But solving for concentration could have unintended consequences: Shifting market-cap and sector allocations can introduce more volatility to your portfolio (**FIGURE 2**).
3. The Hartford Multifactor US Equity ETF (ROUS) is one possible option that seeks to diversify away from market-cap weighting while mitigating volatility and retaining similar sector exposures (**FIGURE 3**).

Insight from Hartford Funds

Bill Pauley, CFA
Head of Client Portfolio Management
Systematic ETFs

Lewis Ratti, MBA
Senior Client Portfolio Manager
Systematic ETFs



Adam Schreiber, CAIA
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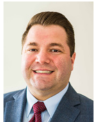

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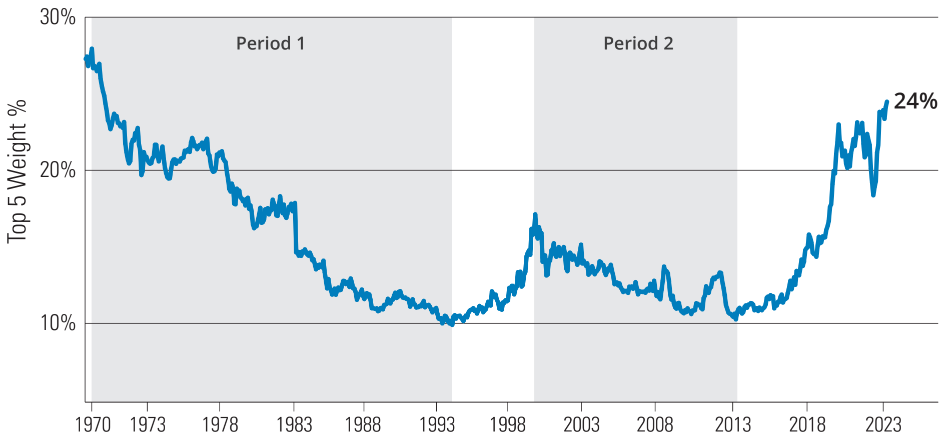
Research

FIGURE 1: Market Concentration Is at a 50-Year High
Top-5 Weight as % of Top 500 US Stocks



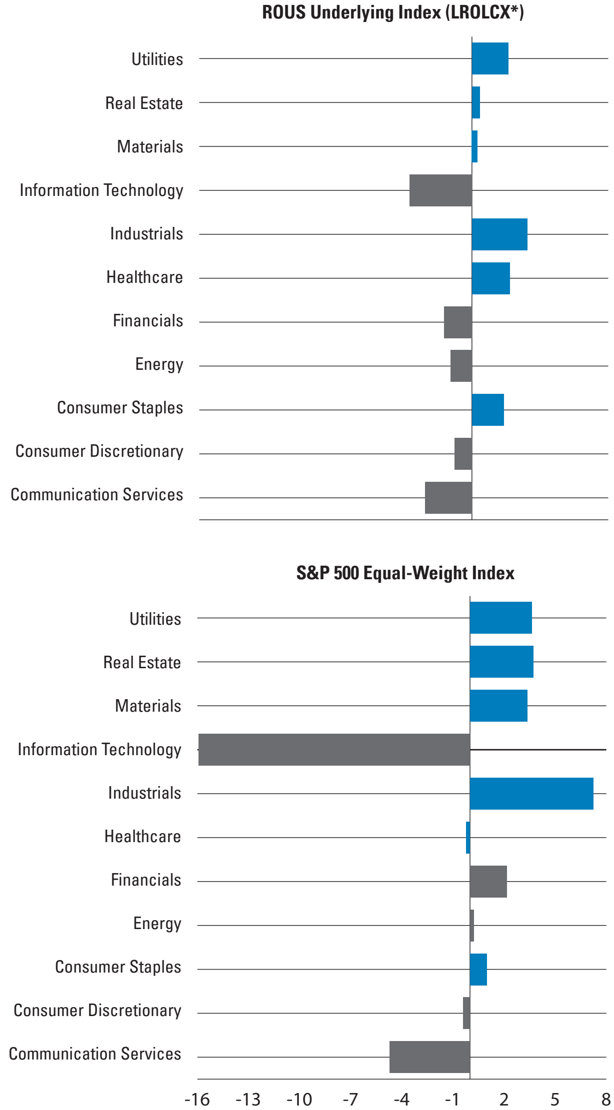
Concentration Doesn't Always Mean Outperformance

	Dates	US Top 5	US Bottom 495
Period 1	4/30/70-8/31/94	10.01%	12.60%
Period 2	2/29/00-9/30/13	-2.57%	3.88%
Full Period	12/31/69-11/30/23	10.36%	10.94%

Chart Data: 12/31/69–11/30/23. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Data Sources: Hartford Equity Modeling Platform and FactSet.

FIGURE 2: S&P 500 Index Equal-Weight Index May Have Large Sector Bets

Sector Weight vs. S&P 500 Index

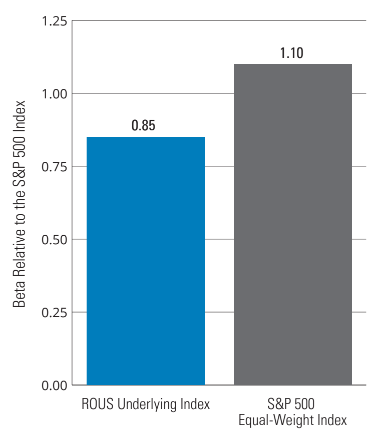


As of 11/30/23. * LROLCX is the Hartford Multifactor Large Cap Index. The S&P 500 Equal-Weight Index is the equal-weight version of the S&P 500 Index in which each company is allocated a fixed weight of the index total at each quarterly rebalance. Data Sources: Hartford Equity Modeling Platform and FactSet.

FIGURE 3: ROUS Had Less Volatility Than the S&P 500 Equal-Weight Index

Potentially Reduce Concentration Risk by Moving Away From Market-Cap Weighting

Beta vs. S&P 500 Index (9/30/04–11/30/23)



As of 11/30/23. Beta is a measure of risk that indicates the price sensitivity of a security or a portfolio relative to a specified market index. Data Sources: Hartford Equity Modeling Platform, FactSet, and Bloomberg.

For more information on systematic investing, please talk to your Hartford Funds representative.

[1] S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

Important Risks: Investing involves risk, including the possible loss of principal. Security prices fluctuate in value depending on general market and economic conditions and the prospects of individual companies. • The Fund is not actively managed but rather attempts to track the performance of an index. The Fund's returns may diverge from that of the index. • Investments focused in an industry or group of industries may increase volatility and risk. • Diversification does not ensure a profit or protect against a loss in a declining market.

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