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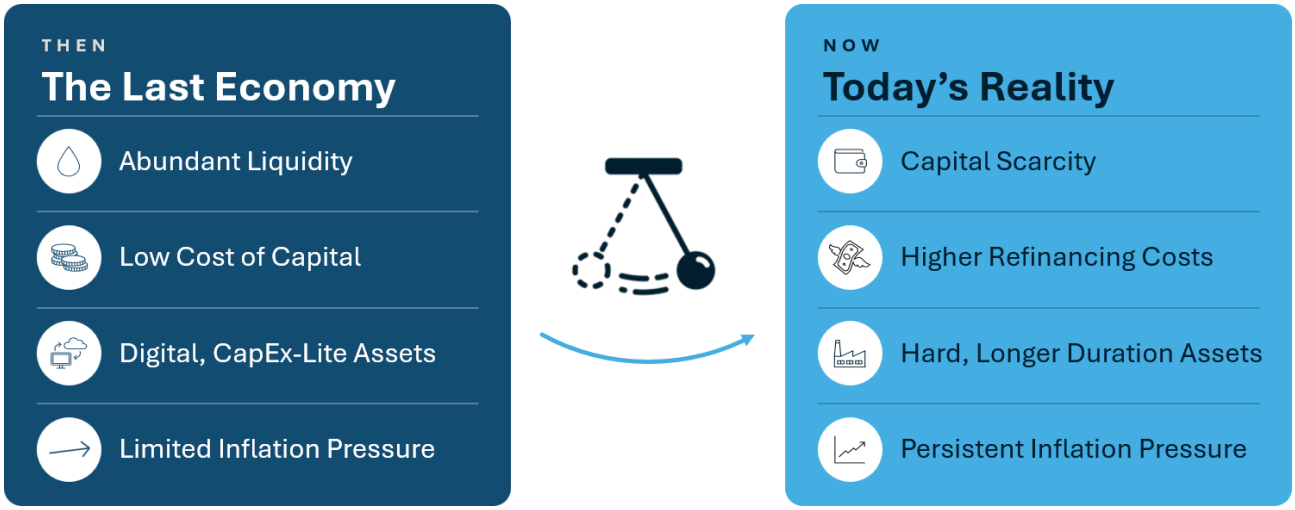
Built for the Last Economy

> *The hard part used to be finding assets worth owning. Now it is funding the ones the economy actually needs built — and the vehicles that won the last era may be the wrong tool for it.*

It is worth asking what problem an investment strategy is designed to solve, because the answer changes with the environment. For most of the past fifteen years, we lived in a low-rate world where capital was abundant and cheap. The difficulty was not raising money or funding projects; it was finding assets worth owning at a reasonable price. In that world, the winning approach was to own as much of the market as possible, as cheaply as possible: broad, liquid, low-fee, index-based exposure. It was the right answer, and it deservedly attracted trillions of dollars.

The problem has changed. Capital is now scarce relative to the demands on it, from governments, from the AI build-out, from reshoring and rearmament. And the assets that most need financing have changed character. They are physical and long-lived rather than digital and asset-light: power plants, electrical grids, factories, housing, defense capacity. The constraint has moved from finding things to own to funding what needs to be built, and those are not the same skill.

The Pendulum Has Swung



Liquidity and Breadth Were the Point — They Have Become a Limitation

The vehicles that dominate today were engineered for the old problem. Their defining virtues are liquidity and breadth: they hold thousands of securities that can be bought and sold instantly at an observable price. That is precisely what made them so good at owning the market cheaply. It is also what makes them unsuited to the task at hand. The assets this cycle requires trade rarely, price opaquely, take judgment to underwrite, and carry durations that only committed, long-term capital can hold.

A vehicle that promises daily liquidity cannot own a ten-year loan against a power project under construction. A strategy that tracks an index cannot finance an asset that belongs to no index. The features that were strengths in a low-rate era of abundance are limitations in an era of scarcity.

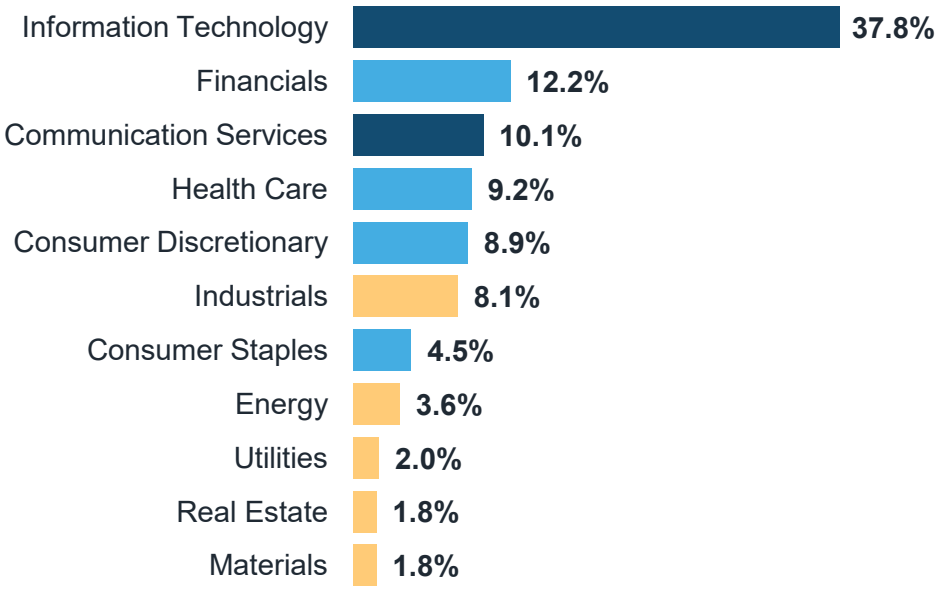
Built for the Last Economy

Where the Index Points, and Where It Doesn't

The mismatch is visible in the composition of the market itself. The S&P 500 is now concentrated in technology and communication-services businesses to a degree without modern precedent, while the sectors most central to the physical economy (utilities, industrials, materials, real estate) sit at low single-digit weights. A dollar of broad passive equity is therefore overwhelmingly a claim on the asset-light incumbents of the last cycle and barely a claim on the parts of the economy now being rebuilt. Investor attention and flows concentrate where the index is heavy, which is to say where growth has already happened, not where capital is most needed next.

Where the Index Is Heavy, and Where It Isn't[1]

S&P 500 Weight by GICS Sector



47.9%

Information Technology & Communication Services

The asset-light incumbents of the last cycle

17.3%

Industrials, Energy, Utilities, Real Estate & Materials

The physical economy

The Case for Underwriting, Made Narrowly

We would frame the conclusion carefully, because it is easy to overstate. We are not arguing that active management beats passive as a general proposition. In deep, liquid, continuously priced markets, it usually does not, and indexing will keep making sense there. Our claim is narrower and structural. The economy's investment priorities have moved toward long-duration assets just as the price of capital has moved sharply higher. Matching scarce capital to those assets must be done deal by deal, by people who can price risk that has never been indexed. Vehicles built for liquidity and breadth are poorly suited to it, and the banking system, constrained by post-crisis capital rules, is structurally limited from holding this credit at scale.

That is the case for private, actively managed capital. Not as a replacement for public markets, which will remain the right home for liquidity, breadth, and cost efficiency, but as the part of a portfolio built to do the thing the index cannot: fund the physical, long-lived assets a transitioning economy depends on, and be paid for the scarcity and the underwriting that funding requires. When the binding constraint is no longer finding assets but financing them, the ability to underwrite what no index can hold stops being a niche and becomes the point.

1. Source: Bloomberg, S&P 500 GICS sector weights. Illustrative; index weights change over time. Technology and communication services are shown together because the largest platform businesses sit across both.

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