

## **AI concentration risk: Action for trustees**

Artificial intelligence (AI) and the companies developing it are becoming an increasing influence on global markets. This influence has potential to create concentration risks that could leave investors more vulnerable in the event of a market downturn. As a trustee, you should maintain high standards of investment governance when assessing asset allocation. This means understanding your investment risk and challenging your advisers on how adverse market events could affect your scheme's objectives.

This guidance sets out steps to take to ensure you understand your scheme's aggregate exposure and test whether diversification will remain effective under stressed market conditions. In line with this guidance, trustees' actions should be proportionate and reflect each scheme's circumstances.

### **Why AI concentration matters**

AI has the potential to generate substantial and lasting productivity and economic benefits, but the investment required to build AI and related infrastructure is changing global market composition. Companies linked to AI now make up a large share of major stock market indices. These companies are raising significant equity and debt through diverse financing channels and across multiple jurisdictions. The breadth and complexity of these sources may make portfolio risks less visible than the scale of the underlying financing suggests and leave investors more vulnerable in the event of a market downturn.

The Bank of England's [July 2026 Financial Stability Report](#) highlights two linked concerns:

- Growing connections between sectors in the AI supply chain, including technology and utilities, may require financial firms to reassess asset-price correlations during stress and update their risk-management approaches.
- The range and varying transparency of AI funding arrangements may make it difficult to identify the full extent of direct and indirect exposure, increasing the possibility that exposure is greater than anticipated or not fully reflected in risk management.

### **Hidden exposure across apparently diversified portfolios**

Even a diversified portfolio may have hidden concentration risk because AI is increasingly embedded across sectors. This means technology, infrastructure, energy, real estate, and financial assets can all become exposed to the same underlying AI-driven expansion. If AI adoption disappoints, regulation tightens, or investment in AI infrastructure proves excessive, losses can emerge simultaneously

across apparently unrelated holdings and asset classes. As a result, investors may find their portfolios are less diversified than they believed.

### **Passive strategies**

In respect of passive strategies, where schemes employ passive market-capitalisation- weighted-investment strategies, concentration will increase as the market value of related companies rises. This is particularly relevant where there is a high allocation to growth assets.

### **Active strategies**

In respect of active strategies, investing through several funds obscures correlations and repeated holdings. Managers might monitor concentration within their own funds but not assess the scheme's portfolio as a whole.

## **Understanding investment exposure within the scheme**

As a trustee, you should understand aggregate exposure to AI and related investments, including exposure within default arrangements, and assess how the scheme might behave during a possible market downturn and take proportionate and appropriate steps. Key areas for action are:

### **Assess total-portfolio exposure**

Ask your advisers and investment managers to identify AI-related exposure across the scheme's entire portfolio. This may require information from individual managers to assess direct and indirect exposure.

### **Use scenario analysis**

Test a severe but plausible market downturn in AI-related assets and compare the results with existing stress tests. The assessment should consider resulting losses, liquidity demands, and changes in correlation, including whether these remain within the scheme's risk appetite.

### **Review passive investments**

Consider how passive strategies (particularly market cap-weighted strategies) may become more concentrated as the value of AI-related companies rises.

### **Challenge advisers and managers**

Ask active managers how they identify, measure and manage concentration risk, which stress-testing assumptions they use, whether liquidity or leverage could

amplify losses, and how exposure could change as additional debt or equity is issued or new companies enter public markets.

## **Communication to members**

A material market downturn could lead to members in defined contribution arrangements to make short-term decisions that could harm long-term outcomes. These decisions could crystallise losses, reduce participation in any later recovery, or weaken retirement outcomes. It is important for defined contribution arrangements for trustees to have a proportionate and clear communication plan which can be executed quickly, to minimise the risk of poor decision-making by members. You should seek advice to ensure your communications are appropriate.

We have previously set out our expectations of what we expect trustees to do in [Market oversight: Market volatility and what trustees should do](#)