Investments

The future-fitting of asset allocation

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I recently had the pleasure of presenting at the 2025 Investment Forum, held in Cape Town and Sun City in March, where we explored exciting developments and shifts in asset allocation. I'd like to share key insights from my presentation and how we're adapting our asset allocations for sustainable growth.

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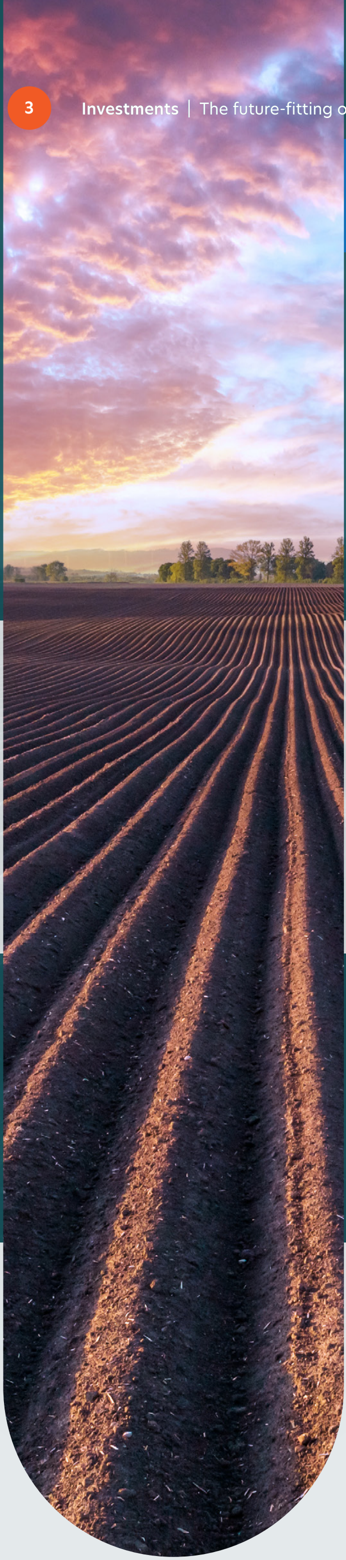
The Swiss army knife

Think of the Swiss army knife, a reliable, multi-purpose tool that has evolved to meet the needs of different users. Just as it has added new tools to remain versatile and effective, our asset allocation strategies have also evolved to navigate changing investment environments. This metaphor illustrates the importance of diversification, strategic planning and adaptability in our investment approach.

The paradigm shift

Just as the Swiss army knife evolved, so too have our asset allocation strategies. The pressures a shifting markets, regulatory changes and innovative solutions have increased the need for agility and diversification in portfolios. Achieving investment objectives is becoming more complex and demanding. The traditional 60/40 equity-bond allocation, once a reliable diversification strategy, now requires a paradigm shift. Investors must explore new portfolio compositions to optimse risk-adjusted returns.



Trends demanding adaptability

1. Time for a new balance

One key theme I discussed was the rising correlation between stocks and bonds. Correlation measures how closely the price movement of two asset classes are related. If stocks rise 10% and bonds do the same, they have a perfect positive correlation of 1. If stocks drop 10% and bonds rise 10%, they have a perfect negative correlation of -1.

Historically, the traditional 60/40 equity/bond allocation provided balance: equities drove returns, while bonds diversified the portfolio and reduced risk. However, recent trends show an increasing correlation between these two asset classes, reducing the diversification benefits. This shift calls for new portfolio strategies to achieve optimal risk-adjusted returns.

2. Embracing alternative investments

Incorporating alternative asset classes can add significant value to the traditional 60/40 equity-bond split. These alternatives provide diversification benefits by exhibiting low or negative correlation with traditional investments, helping to reduce portfolio volatility. Integrating alternative investments—such as private markets and hedge funds—into mainstream portfolios has been shown to enhance returns and minimise risk.

The exact allocation and investment choices will depend on objectives, risk tolerance and regulatory objectives.

3. Time for diversification

Today's investors face a challenging market environment. Research from Callan shows that to achieve the same returns as 30 years ago, investors now need to take on nearly four times the risk. In the past, a portfolio made up of 85% bonds and 15% public equity was expected to return 7%. By 2024, achieving a similar return requires allocating nearly half of the portfolio return-seeking assets, such as stocks and alternative investments. The takeaway remains clear: Investors now need more complex and higher-risk portfolios to meet their return targets than they did 30 years ago.

4. Time for global

The Johannesburg Stock Exchange (JSE) is shrinking as an investment opportunity, with the number of listed companies declining significantly over the years. In 1999, the JSE had 668 listed companies; today, there are only 274- less than 1% of the total global investment universe.

Additionally, in February 2022, the maximum offshore allocation for South African retirement funds was increased to 45%. Expanding globally not only provides access to wider range of opportunities across markets and regions but also helps protect portfolios against short-term currency fluctuations and inflation.

Perspectives from South Africa's largest multi-manager

Building long-term investment value may seem daunting in today's market. **But it doesn't have to be.**

Through rigorous research and due diligence, we've refined our approach to asset allocation. Identifying top-rated asset managers and high-quality investment opportunities is essential. This process involves detailed evaluation of management teams, strategies, track records and investment pipelines. Gaining and maintaining access to top-tier asset managers is critical as the gap between the best and worst managers in private markets and hedge funds highlights the importance of making the right selections.

How we access new and niche asset classes is just as important as the investment themselves. Strong governance and legal structures are essential to ensuring integrity and long-term viability. This includes establishing clear guidelines and oversight mechanisms to manage risks effectively.

Fees and bargaining power reflect long-standing frictions for portfolio adaptability. Securing investment strategies at the right price is crucial to long-term returns. Our leading market position allows us to negotiate lower fees, delivering better value when future-fitting asset allocations.

But scale isn't just about size; it's about expertise, and we get the opportunity to combine our strong investment capability with another incredibly strong global investment team. Our strategic relationship with global multi-manager powerhouse, Mercer Investments, provides exclusive access to invaluable experience and a global perspective, essential for navigating the complex international markets. When you put together our local know-how alongside Mercer's global scale and capabilities, I'm not sure there's anybody who can say they have an equivalent offering in this market dedicated to delivering great investment outcomes.

With over **300** research analysts worldwide and a staggering **$617 billion** in assets under management, Mercer brings world-class expertise to our portfolio construction process.

At Alexforbes, we understand that every rand invested towards an investment destination that matters to you represents your hard work, dedication and sacrifice.

That's why choosing the right investment partner is just as important. With nearly three decades of expertise across all asset classes and investment strategies, we help simplify complexity and position your investments for the future. As Robert Kiyosaki wisely said, "Finding good partners is the key to success in anything: in business, in marriage and especially in investing."

With Alexforbes, no matter your investment destination, you're in the right place.

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