

A night cityscape with digital data lines overlaid on the buildings. The lines are vertical and horizontal, connecting various points across the city. The colors of the lines are blue, purple, and pink. The city lights are visible in the background, and the sky is dark blue.

# Key Portfolio Trend 01

## In Search of The Innovative Portfolio

# The Shift from 60/40 to 40/30/30: In Search of The Innovative Portfolio

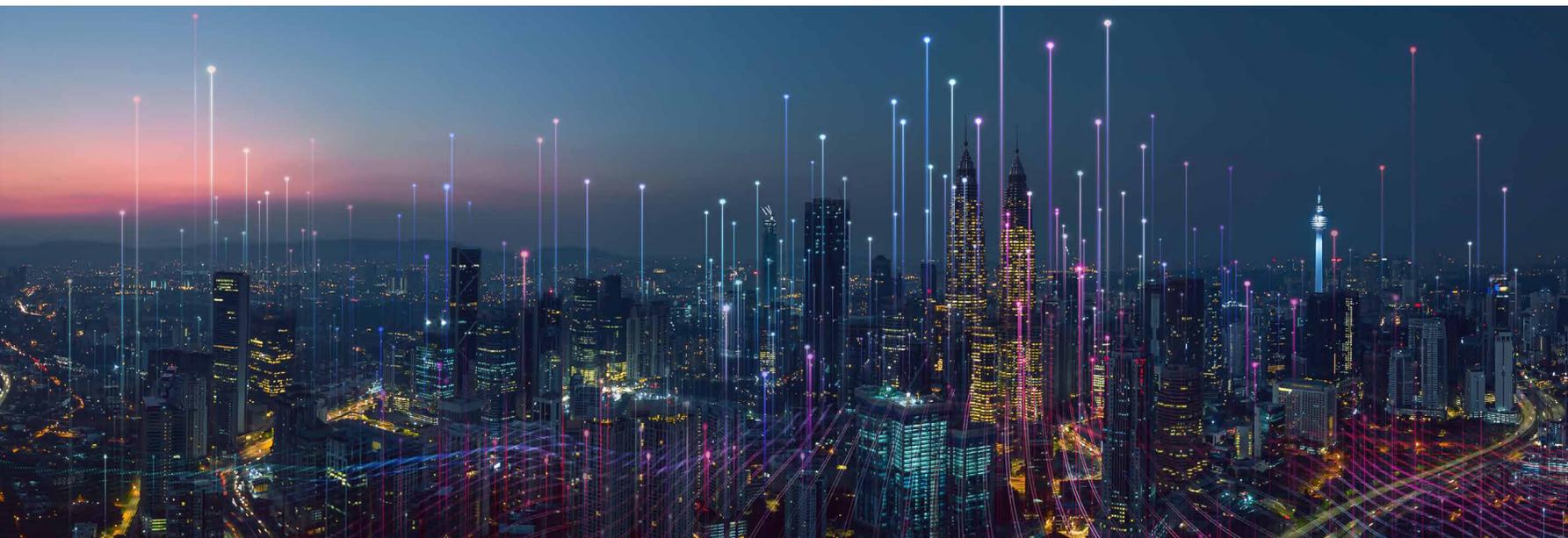
We live in a world where change is constant, and with it comes uncertainty – nowhere more so than in the investment landscape. As the environment evolves, so must the portfolios we build. Yet, while many areas of society have adapted meaningfully as our understanding of the world has advanced, the average investor's portfolio has remained largely stagnant – anchored to familiar assets and missing out on the benefits of new tools and strategies.

The “Innovative Portfolio” takes a forward-thinking approach to investing, constructing true multi-asset, multi-strategy portfolios. Using an evidence-based, goals-driven framework, it thoughtfully blends traditional and alternative assets with the aim to achieve optimal outcomes.

As we head into 2025, with bubbles brewing across various markets, this leaves investors vulnerable to significant market downturns and limits their potential for enhanced returns.

The 40/30/30 framework redefines portfolio construction, offering:

- 1 Broader Diversification**  
A framework spanning nine unique asset classes, reducing concentration risk and increasing resilience.
- 2 Greater Capital Efficiency**  
Higher returns could be achieved by deploying capital more effectively across diverse strategies rather than concentrating on riskier assets.
- 3 Greater Fee Efficiency**  
Optimized fee budgets prioritize strategies delivering asymmetric, uncorrelated returns while reducing fees per unit of gross exposure.
- 4 Rigorous Risk Management**  
Risk is actively measured and managed against pre-set targets to avoid outsized exposures.
- 5 Total Portfolio Approach**  
A “next best dollar” framework prioritizes allocations that enhance the likelihood of achieving portfolio objectives over rigid asset class adherence.
- 6 Tactical Adjustments**  
Probability-weighted shifts dynamically overweight assets likely to perform well in current market conditions.
- 7 Dedicated Diversifiers**  
A base layer of alpha-generating “cash beater” strategies could enhance performance across a broader range of scenarios.



## 2025 Outlook: Preparing for Shifting Market Conditions

With 2025 on the horizon, a range of market-moving forces – from brewing economic bubbles to geopolitical shocks – demand proactive portfolio adjustments. The Innovative Portfolio offers a pragmatic way to fortify client portfolios against uncertainty.

The classic 60/40 portfolio (60% equities, 40% fixed income) has been a long-standing benchmark for asset allocation. But today's political, economic, and market shifts demand a more adaptive approach. That's why investors should consider a 40/30/30 portfolio:

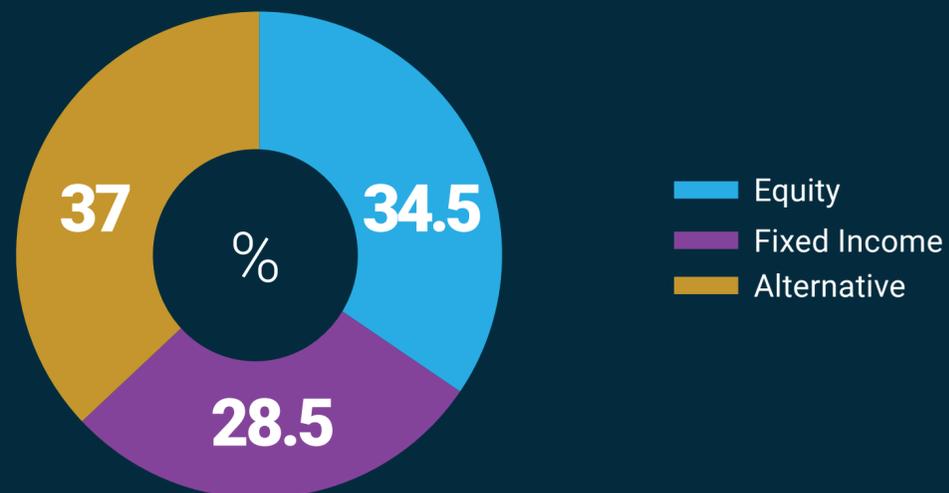
- **40% to Equities**
- **30% to Fixed Income**
- **30% to Alternatives**

With this 40/30/30 framework in mind, we built models of what we consider to be The Innovative Portfolio mix given the current market conditions. We have provided a sample "Optimal" Mix, as well as a model – The "Minimal" Mix – which helps take a step toward a 40/30/30 portfolio in a way that may better fit your mandated investment criteria.

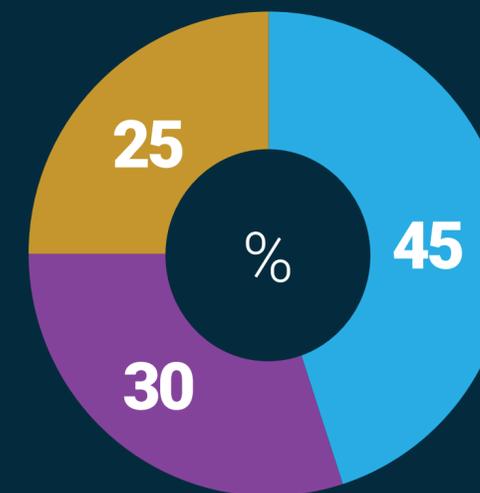
Note: These are illustrative models for discussion purposes only.

## The Innovative Portfolio

The "Optimal" Mix



The "Minimal" Mix



### EQUITIES What's in the 34.5?

#### By Geography

- 13.5% US Equity
- 17% Global Equity
- 4% Canadian Equity

#### By Product Architecture

- 20.5% Index Equity
- 10% Active
- 4% Equity Enhancer

### FIXED INCOME What's in the 28.5?

#### By Class

- 14% Active Fixed Income
- 10% Fixed Income Enhancer
- 2.5% Aggregate Fixed Income
- 2% Cash

#### By Product Architecture

- 14.25% Index
- 14.25% Active

### ALTERNATIVES What's in the 37?

#### By Class

- 27% Alternative Strategies
- 10% Alternative Assets

#### By Portfolio Role

- 27% Diversifying Strategies
- 10% Diversifying Assets

### EQUITIES What's in the 45?

#### By Geography

- 16% US Equity
- 23.5% Global Equity
- 5.5% Canadian Equity

#### By Product Architecture Split

- 30% Index
- 15% Active

### FIXED INCOME What's in the 30?

#### By Class

- 14% Short Dated Fixed Income
- 14% Active Fixed Income
- 2% Cash

#### By Product Architecture

- 15% Index
- 15% Active

### ALTERNATIVES What's in the 25?

#### By Class

- 20% Alternative Strategies
- 5% Alternative Assets

#### By Portfolio Role

- 10% Enhancers
- 15% Diversifying

#### By Goal

- 10% Diversifying Strategies
- 5% Diversifying Assets
- 6% Equity Enhancer
- 4% FI Enhancer

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All figures provided are sourced from Bloomberg L.P. unless otherwise specified, and are based on data as at the dates indicated.

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