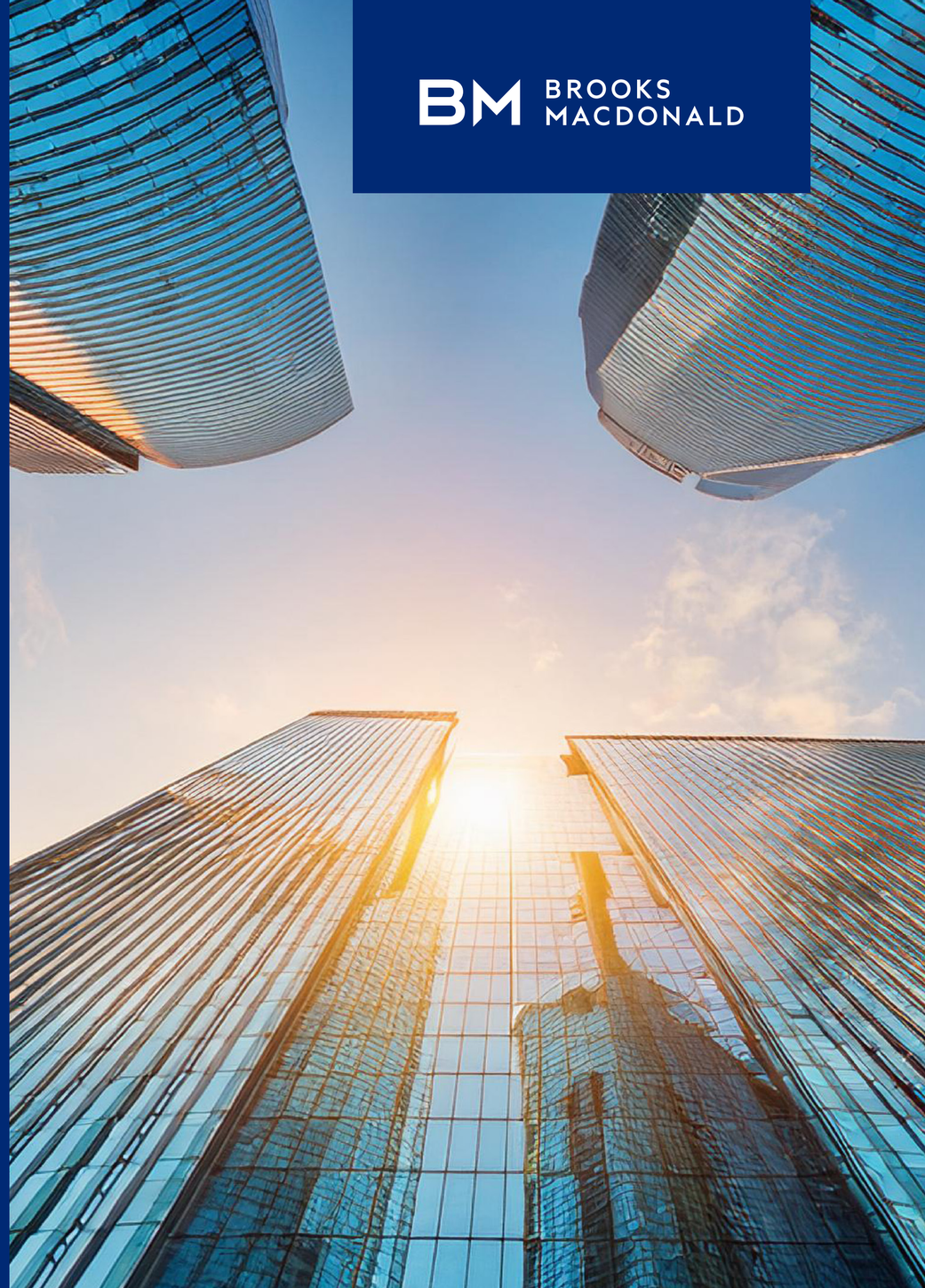
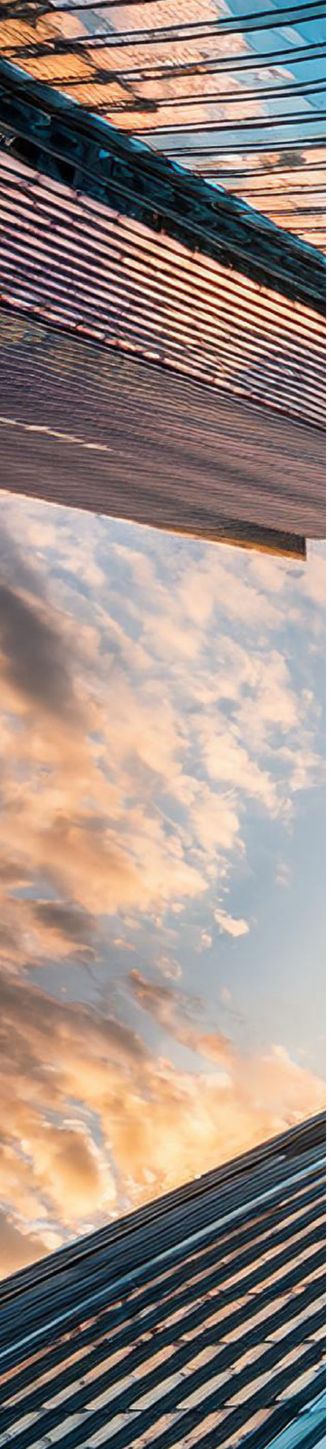
FOR PROFESSIONAL ADVISERS ONLY

Strategic Asset Allocation

A guide to the long-term investment mix
that sits at the heart of a well-built portfolio.

BROOKS MACDONALD





What is Strategic Asset Allocation?

Strategic Asset Allocation, often shortened to SAA, is the long-term blueprint for how a portfolio is invested across major building blocks such as shares, bonds, cash, commodities and other diversifying assets. Rather than focusing on the next market move, SAA asks a more fundamental question: what mix of investments gives clients the best chance of meeting their objectives over time, while taking an appropriate level of risk?

In simple terms, it is the portfolio's foundation. Individual investments and short-term views can change, but the strategic asset allocation provides the disciplined structure that keeps the portfolio aligned with its long-term purpose.

Why it's relevant

Markets are uncertain, and different investments behave differently through the economic cycle. Shares may offer stronger long-term growth potential, but they can also be more volatile. Bonds and cash may provide stability and liquidity, but typically with lower return expectations. Alternatives can add additional sources of return or diversification but need to be used carefully. SAA brings these pieces together in a considered way.

A robust SAA helps portfolios stay focused on the long-term, avoid overreacting to short-term market noise, and balance the trade-off between risk and return. It is one of the most important decisions in portfolio construction because the broad mix of assets is typically a major driver of long-term outcomes.

The universe of assets we consider

A strategic asset allocation starts by looking across a broad investment universe. The aim is not to own every possible asset, but to select the building blocks that can play a useful role for clients. Each asset class is included for a reason: some are expected to drive long-term growth, some can provide income or stability, some may help protect against inflation, and others can improve diversification because they behave differently from traditional shares and bonds.

- Equities, or shares. These represent ownership in companies and are usually included for long-term growth potential. They can be rewarding over time, but they can also move sharply in the short term, so the level of equity exposure needs to match the client's risk profile.
- Government bonds. These are loans to governments and can provide stability, income and liquidity. They may help cushion portfolios in some weaker economic environments, although they are still affected by interest rates and inflation.
- Inflation-linked Government bonds. These are designed to respond more directly to inflation. Their use for preserving purchasing power is an important consideration.
- Investment-grade Corporate Credit. These are loans that are generally considered financially sound. They can provide income above government bonds, while still aiming to keep credit risk at a measured level.
- High-yield bonds and Emerging Market Debt. These can offer higher income potential, but with greater risk. They may be considered where the extra reward is judged sufficient and where they add a useful source of return within a diversified portfolio.
- Commodities. Assets such as energy, metals and agriculture can behave differently from shares and bonds. They may help during certain inflationary or supply-driven environments but can also be volatile.
- Diversifying strategies. Some strategies are included because they seek returns from sources that are less dependent on traditional market direction. Used carefully, they can help smooth the overall portfolio journey.

The chosen asset universe is therefore deliberately varied. In client portfolios we seek exposures to different regions, return drivers and economic sensitivities, rather than relying too heavily on one market view or one type of investment outcome. Spreading investment risk and portfolio sensitivities is often called 'diversification'.

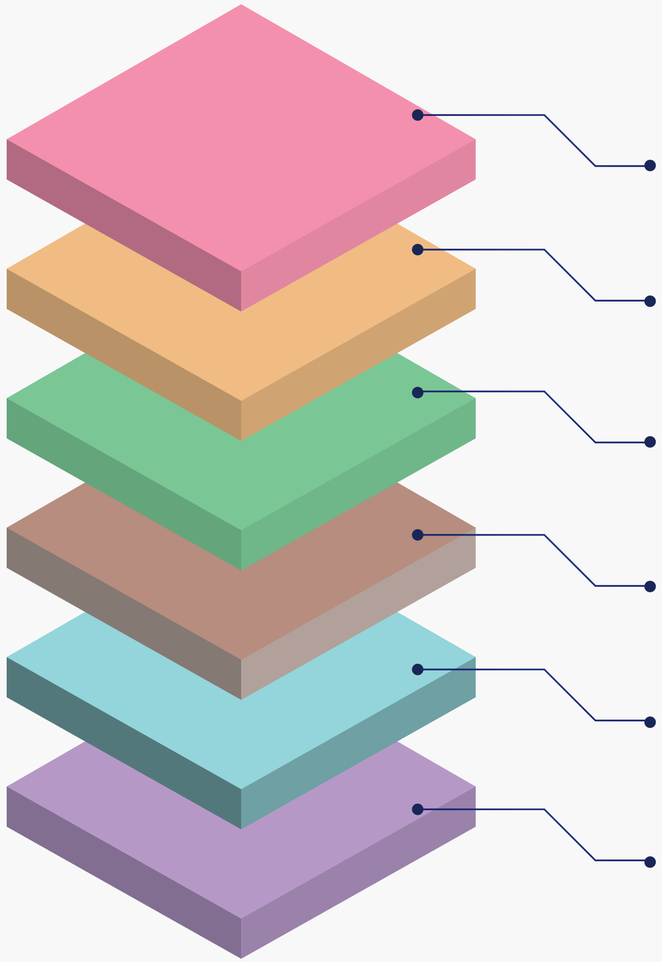
Portfolio resilience and robustness

Diversification is central to portfolio resilience. In practice, resilience means building a portfolio that does not depend on a single outcome being right. No asset class provides beneficial results all the time: equities may struggle in downturns, bonds may be challenged by rising inflation or interest rates, and commodities can be volatile. A robust SAA recognises this uncertainty and combines assets that can respond differently to different environments.

This does not mean a diversified portfolio cannot fall in value. It can. But diversification aims to reduce the reliance on any single asset class, region or economic scenario. The goal is to create a portfolio that can absorb shocks, recover over time, and remain aligned with client objectives even when markets are uncomfortable.

We therefore review the asset mix under a range of possible conditions, including stronger growth, weaker growth, inflationary pressure, changing interest rates and stressed markets. This helps ensure the portfolio is designed with enough balance and flexibility to remain fit for purpose across many possible futures and not built for one expected future.

Building the right portfolio



Growth Assets
Aimed at increasing in value over time, typically higher in risk

Defensive Assets
can provide stable returns and better able to handle market fluctuations

Income Assets
can generate a stable income or pay-out, like coupons

Real Assets
investments in physical assets, like commodities

Alternative Strategies
investment opportunities beyond traditional assets

Liquidity
cash or cash equivalents

Source: Brooks Macdonald

Strategic Asset Allocation Framework

Source: Brooks Macdonald

What we do at Brooks Macdonald

- **Start with client needs.** We consider the purpose of the portfolio, the investment time horizon, the level of risk the portfolio is designed to take, and the type of investment journey clients should expect.
- **Look across the full opportunity set.** We assess the long-term role of major asset classes, including equities, fixed income, cash, real assets and diversifying strategies.
- **Estimate long-term risks and returns.** We use capital market assumptions, historical evidence and forward-looking judgement to understand how different assets may behave over time.
- **Build diversified portfolios.** We combine assets that can play different roles, aiming to avoid unnecessary reliance on any single market, region or source of return.
- **Test the portfolio under different conditions.** We examine how the asset mix may respond in stronger markets, weaker markets, inflationary periods and other challenging environments.
- **Set clear guardrails.** We use constraints and risk controls so that the portfolio remains aligned with its stated objective and risk profile.
- **Review and refine over time.** We revisit assumptions, market conditions and portfolio behaviour regularly, while keeping the focus on long-term discipline rather than short-term noise.

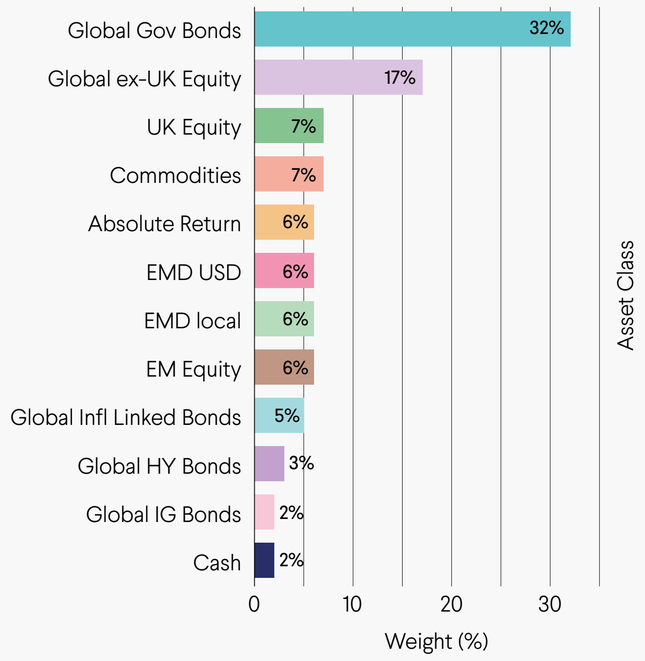
How to think about it

A helpful analogy is building a house. The strategic asset allocation is the foundation and framework: it determines the overall shape, strength and resilience of the portfolio. The individual funds, managers and short-term market decisions are important too, but they sit on top of that foundation. SAA is not about predicting every market twist and turn. It is about creating a sensible, diversified and repeatable investment framework that can support clients through a range of market environments.

In summary

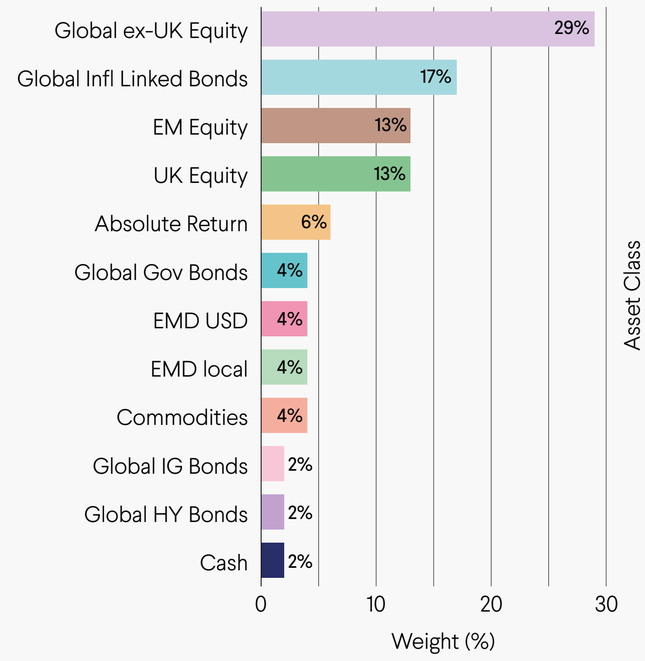
Strategic Asset Allocation is the long-term investment plan that connects client objectives with portfolio design. Its purpose is to help clients participate in growth opportunities, manage risk, and remain invested with confidence through changing market conditions.

BM Strategic Asset Allocation
Total equity weight: 30%



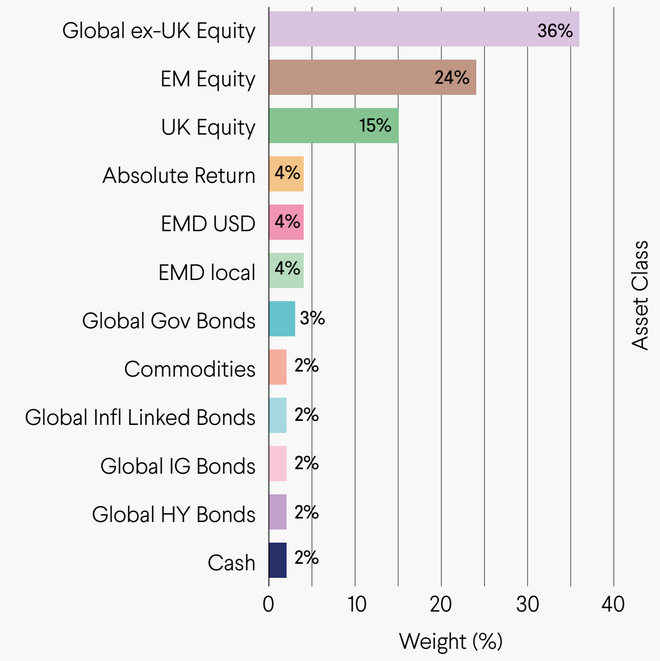
Source: Brooks Macdonald

BM Strategic Asset Allocation
Total equity weight: 55%



Source: Brooks Macdonald

BM Strategic Asset Allocation
Total equity weight: 75%



Source: Brooks Macdonald

Important information

The value of investments can fall as well as rise and clients may get back less than they invest. Strategic asset allocation is designed for long-term portfolio construction and does not remove investment risk.

This document is intended for professional advisers only and should not be relied upon by any persons who do not have professional experience in matters relating to investments. The value of your investments and the income from them may go down as well as up and neither is guaranteed.

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