Normalisation in Motion

Strategic Allocation Challenges in a Changing Opportunity Set

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Key Takeaways

- **Normalisation is moving from recognition towards validation**. Geopolitical uncertainty has prompted many international asset owners to reassess accumulated US and USD concentration. Early capital flows and institutional behaviour now suggest that process is becoming more visible.
- **A broader opportunity set increases the importance of selection.** In public equities, genuinely active mandates need room to express conviction. In private equity, capital is concentrating among fewer managers while performance remains widely dispersed.
- **Public and private markets are reconnecting.** Exit activity is improving, but distributions remain weak and the backlog of unsold companies substantial. Public markets remain an important route for new ownership, liquidity and capital recycling.
- **Higher rates change the hurdle across the portfolio.** With long-term government yields above 5%, equities and illiquid assets must justify their premium over increasingly attractive liquid alternatives.
- **AI has become a multi-asset capital cycle.** Exposure now extends beyond public equities into corporate debt, private credit, infrastructure and real assets. Investment committees need to understand the aggregate risk across the portfolio.
- **CMAs remain essential, but they are not the allocation decision.** The challenge for investment committees is whether the assumptions behind the numbers still hold as technology, capital flows, financing conditions and market structure change.

Executive Summary

In our September 2025 paper, *Rebalancing the Global Portfolio: Strategic Asset Allocation in a Post-Liberation Landscape*, we argued that more than a decade of exceptional US performance had created structural portfolio overweights and that Europe, the UK and Japan were likely to benefit as investors began to normalise those exposures.

When we published that view, it sat outside mainstream institutional positioning. Early adopters were already moving, but the signal was more evident in our conversations with asset owners than in reported flows. The catalyst was geopolitical as much as financial: many international institutions were beginning to question how much of their portfolio, and currency exposure, had become dependent on the US. A year later, early flows, transactions and changing allocator behaviour are making that shift more visible.

Normalisation is not proceeding evenly. Japan's validation began earlier. Europe and the UK are at an earlier stage, but the green shoots are increasingly apparent. Years of weak domestic capital formation reduced liquidity, financing and investor attention. As capital begins to return, it can influence the opportunity set as well as respond to it. Asia presents a different challenge: for many international investors it is already a meaningful allocation, while parts of North Asia increasingly share the same AI economic drivers embedded in US portfolios.

The opportunity set is also changing within asset classes. Long-term government yields above 5% have raised the hurdle for equities and illiquid assets. Private markets face a more demanding environment of weaker distributions, longer holding periods and higher financing costs. AI, meanwhile, has moved beyond an equity theme into a capital cycle spanning public credit, private financing, infrastructure and real assets.

The purpose is not to prescribe a single allocation answer, but to identify the questions investment committees should be asking as the opportunity set, financing environment and underlying economic exposures change. These developments will not lead every institution to the same allocation. The challenge for investment committees is whether the assumptions and structures that produced today's portfolio still deserve the same confidence.

Normalisation in Motion: From Recognition to Validation

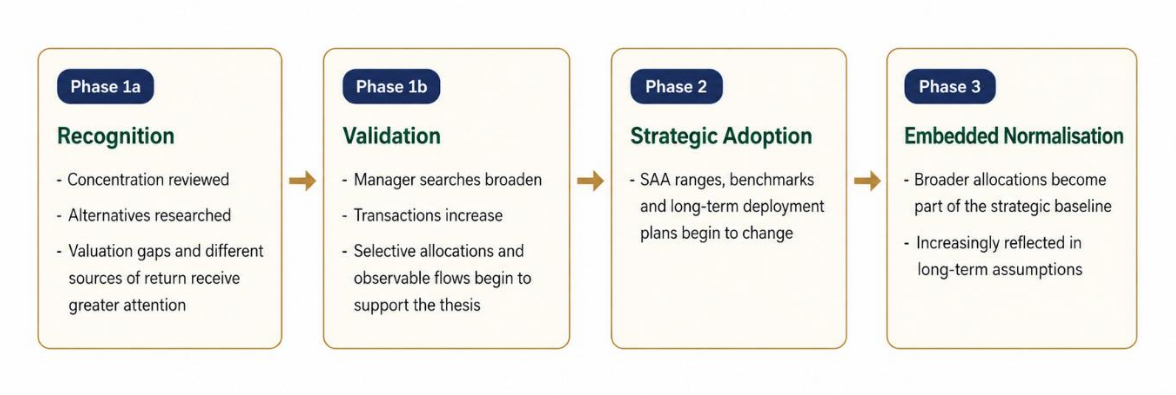
The starting point for this year's paper is the thesis we published last September. More than a decade of compounding US outperformance had created structural portfolio overweights across public equities and other asset classes.

The catalyst for reassessing those positions was geopolitical rather than a view that US markets would suddenly underperform. Greater policy uncertainty caused many international asset owners to reconsider how much of their portfolio had become dependent on US assets and the dollar. That concentration extends beyond listed equities into Treasuries, corporate credit, private markets and real estate. Reducing one US allocation while increasing another does not necessarily reduce the portfolio's underlying dependence on the same economy, currency or financing environment. The question was not whether to abandon US exposure, but whether the concentration built over the previous decade still represented the right strategic balance.

When we published that view in September 2025, it sat outside mainstream institutional positioning. Early adopters were already moving, but the signal was clearer in our conversations with asset owners than in reported flows. A year later, the evidence is increasingly visible.

This was never a short-term regional trade. Strategic portfolios move slower than markets. Research, manager selection, governance and implementation take time, particularly in private markets where change can extend across several vintages. The phases of normalisation therefore describe investor behaviour rather than fixed periods.

Figure 1: Normalisation in Motion



Our assessment: the broader normalisation process is moving from recognition towards validation.

That transition is not uniform. Japan's validation began earlier, supported by corporate governance reform and increasing foreign participation. Berkshire Hathaway began building positions in Japan's five major trading houses in 2019, while Tokyo Stock Exchange reforms from 2023 increased the focus on cost of capital, capital allocation and shareholder accountability.

Europe and the UK followed a different path. Their markets remained deep and investable, but Brexit, political uncertainty, the pandemic, the war in Ukraine and the energy shock reduced international attention while US allocations continued to compound. By December 2024, investors surveyed by Bank of America were at their largest US equity overweight relative to the eurozone since the European sovereign-debt crisis.[1] The opportunity did not suddenly appear in 2025. Investors began looking at it again.

Asia is less straightforward. For many international institutions it is already a significant allocation. China remains difficult, while Taiwan and South Korea offer more direct exposure to the semiconductor and AI cycle already important within US portfolios. India presents a different combination of valuation and growth considerations. A US–Asia barbell may suit some institutions, but geographic diversification still needs to be tested against the economic exposures underneath it.

The Middle East conflict in early 2026 also showed that normalisation will not be linear. As we discussed in *A Quarter In: When Investment Committees Begin Reassessing Assumptions*, IC attention shifted towards inflation, rates, liquidity and deployment as the conflict persisted. The longer-term normalisation discussion did not disappear; it competed with more immediate portfolio questions.

Market performance can also move ahead of strategic allocation. Some valuation gaps visible last year have narrowed, particularly in Japan and parts of Europe. That should not create pressure to chase performance. An overweight built over more than a decade will take time to normalise, and strong US performance can increase rather than reduce the concentration already owned.

> **Some investors may have missed the earliest rerating. They have not missed the structural normalisation**

Money in Motion

Last September, the early signal was principally qualitative. Asset owners were asking more questions, examining alternative markets and reassessing manager coverage. A year later, there is more evidence that those conversations are translating into behaviour.

Figure 2: Early Evidence That Capital Is Broadening

Evidence	What has changed	Why it matters
Border to Coast[2]	Shifting around 5%–10% of listed US investments towards Europe and Asia.	A large institutional investor explicitly linking the change to concentration, while continuing to identify attractive opportunities in US private assets.
Dutch pension funds[3]	Net €30bn of US securities sold in 2025; net €23bn of European securities purchased.	Observable institutional rebalancing, principally through fixed income, while some equity selling reflected normal rebalancing after market gains.
UK corporate assets[4]	Foreign bids for UK companies have exceeded $197bn in 2026 and account for 86% of UK M&A value.	Global strategic and private capital is independently identifying value in UK-listed businesses.
European infrastructure[5]	CPP Investments and Goodman established an A$14bn European data-centre development partnership.	Long-duration international capital is being committed to Europe's changing physical investment opportunity set.

These measures capture different stages of allocation and should not be aggregated. Fund-flow data show the same direction. Within the European fund market, European large-cap funds moved from €12 billion of outflows in 2024 to €41.2 billion of inflows in 2025, while US large-cap inflows fell from €98.3 billion to €6.2 billion. Euro corporate-bond funds attracted a further €19.2 billion, while European PE and VC fundraising rose 16% to €147 billion. The shift is not confined to equities: Dutch pension funds' €30 billion of net US sales in 2025 included €18 billion of sovereign and corporate bonds. Together, the evidence is considerably stronger than a year ago.

The significance is not simply that capital is diversifying geographically. Capital supply can also influence the opportunity set it enters. Europe does not lack established public or private markets, but years of weak domestic capital formation have affected liquidity, financing, transaction activity and the environment in which companies invest and grow. Early green shoots are now visible as institutional attention returns, domestic pension capital becomes more active, and transaction activity improves.

The UK is particularly striking. In 1990, UK pension funds and insurers together owned 52.1% of quoted UK equities. By 2024 their combined share had fallen below 3%, while overseas investors owned 58.8%.[6] Methodological changes over such a long period require caution, but the direction is clear.

The Mansion House Accord begins to reverse that decline. Seventeen defined-contribution providers, representing around £252 billion of assets, have committed to invest at least 10% in private markets by 2030, including 5% in UK private markets.

> **| Europe has spent much of the last decade deferring risk-adjusted return. A rebuilding of capital supply has the potential to unlock it**

Capital cannot substitute for economic or corporate profit growth. But returning capital can improve liquidity, increase transaction activity, finance companies and infrastructure, and support the conditions in which businesses can invest and scale. The early signs matter because capital is beginning not only to respond to the opportunity set, but to influence it.

Reported flows tell us where capital has arrived. Manager searches, research activity and the questions being asked around investment committee tables can provide an earlier indication of where institutions are preparing to deploy it.

Equities: A Broader Opportunity for Active Investment

Equity concentration remains one of the clearest portfolio consequences of the past decade. The ten largest companies account for around 38% of the S&P 500, leaving a substantial share of US and global equity exposure dependent on a relatively small group of businesses.[7] Their performance may be entirely consistent with strong earnings and competitive positions. The portfolio consequence is nevertheless concentration.

Normalisation does not depend on US markets weakening. Retaining substantial US exposure while directing more new capital and realised gains towards a wider geographic and sector opportunity set can be entirely consistent. European, UK and Japanese markets also offer different sector mixes, with greater representation from financials, industrials, healthcare and other businesses less dominant within the largest US index constituents.

Asia adds another dimension. For many international investors it is already a meaningful allocation, while parts of North Asia increasingly share the semiconductor and AI cycle driving US market concentration. China and India present different valuation, policy and growth considerations. Geographic diversification therefore needs to be judged by underlying economic exposure as well as country or index weight.

A broader opportunity set raises a second question: whether institutions have designed active mandates that allow managers to exploit it. Tracking-error budgets for traditional active equity mandates have often been compressed towards the benchmark. That can be appropriate for modest benchmark enhancement, but less so where a manager is appointed for differentiated research and security selection.

Figure 3: Active Equity: Be Clear About the Objective

Dimension	Benchmark-aware Active	High-conviction Active
Objective	Modest, relatively consistent excess return	Material long-term alpha
Tracking error	Typically 100-300 bps	Often 900-1200 bps or higher
Portfolio shape	Broad, index-aware, diversified	Fewer, differentiated positions
Active risk	Limited relative deviation from the benchmark	Meaningful divergence from the benchmark
Governance	Focus on consistency, unintended exposures and manager discipline	Strong manager selection and tolerance for periods of relative underperformance
Key success factors	Cost discipline, consistency and risk control	Patience, conviction and clear accountability

For a genuinely high-conviction portfolio of perhaps 15 to 20 holdings, materially higher tracking error may be necessary if the manager’s best ideas are to influence outcomes. A range of 9% to 12% can be consistent with that degree of differentiation, although this is illustrative rather than prescriptive. Tracking error does not create skill. It determines how much skill, or error, can affect performance.

The contrast with hedge funds is instructive. Institutions accept substantial active risk, complexity and higher economics where they believe specialist or multi-manager platforms possess genuine skill. The strategies are not substitutes, but the comparison reinforces the importance of mandate design. If a manager is appointed for differentiated judgement, the mandate needs to let that judgement matter.

> **Do not appoint an active manager and then design a mandate that prevents the manager from being active**

The equity opportunity arising from normalisation is therefore broader than regional weights. It is also an opportunity to reconsider the balance between passive beta, benchmark-aware active exposure and genuinely high-conviction security selection.

Private Markets: Capital Is Concentrating, Outcomes Are Not

Our September 2025 paper highlighted the growing concentration of private-market fundraising and the increasing importance of manager selection. Both trends have since intensified.

The ten largest US private equity funds captured 46% of capital raised through September 2025, up from 34.5% in 2024.[8] Weak distributions are part of that dynamic: LPs with less cash available for new commitments are consolidating relationships and concentrating capital with managers where they already have confidence, access and familiarity.

Scale brings real advantages: sourcing networks, operating resources, financing relationships and the ability to offer co-investment, secondaries, credit and infrastructure alongside private equity. But scale should not be confused with superior returns in every environment.

KKR cites more than 1,400 basis points of dispersion between top and bottom-quartile private equity managers, compared with around 300 basis points among public equity managers.[9] It also highlights limited persistence of top-quartile performance across successive funds. Manager selection matters but simply choosing the previous top-quartile fund is not an investment process.

Europe's middle market provides an interesting counterpoint to capital concentration in global mega-funds. The opportunity is distinct: founder and family ownership, succession, fragmented industries, cross-border consolidation and professionalisation can provide value-creation levers less dependent on leverage or multiple expansion.[10]

The implication is not that smaller managers will outperform larger ones. It is that the investable manager universe may become narrower without simply becoming larger. Asset owners need to distinguish scale from repeatable investment advantage.

Figure 4: Private Equity - Capital Concentrates, Selection Matters More

46%
Top 10 US funds' share of capital raised
Up from 34.5% in 2024[8]

>1,400 bps
Top-to-bottom quartile PE manager dispersion
Manager selection remains highly consequential[9]

c.300 bps
Comparable public equity manager dispersion
A useful contrast with private equity[9]

12%
2025 global PE distributions / prior-year NAV
Versus a 21% long-term average[11]

32,000 / $3.8tn
Unsold PE-backed companies / estimated value
A substantial backlog of private-market ownership[12]

More Exits Are Encouraging. More Cash Returned Is the Test.

Private equity exit activity has recovered, but transaction value and cash returned to LPs are not the same measure.

StepStone estimates global private equity distributions were equivalent to 12% of prior-year NAV in 2025, compared with a long-term average of 21%.[11] The denominator matters. Much more capital was raised and deployed during 2020 to 2022, so absolute exit activity has to rise simply to restore distributions as a share of NAV.

The age of the portfolio reinforces the point. Bain estimates that distributions have remained below 15% of NAV for four consecutive years and that around 32,000 unsold companies remain in private equity portfolios, worth approximately $3.8 trillion.[12]

Liquidity is better understood as a spectrum than as a binary distinction between public and private assets. Secondaries and continuation vehicles can provide genuine liquidity to one investor even where the asset remains private, while listed assets may also become costly to exit under stress. What matters is how readily an exposure can be converted into cash, at what price and over what period.

That matters more when rates are higher. If LPs remain invested for longer, the return hurdle should reflect both the extended holding period and the fact that liquid alternatives now offer materially more income.

Public markets therefore remain important to the private-market ecosystem. Strategic acquisitions introduce capital from outside private equity, while public listings broaden ownership and create a route for existing shareholders to sell down over time. The SpaceX IPO demonstrated the scale of capital public markets can absorb, even though IPO value should not be equated with immediate DPI for all existing investors.

> **The future of private markets increasingly runs through public markets**

Private capital remains an important source of ownership, financing and value creation. Its continued growth also requires credible routes through which capital can be returned and recycled.

Fixed Income and Credit: Yield Without Complacency

Fixed income has regained strategic relevance. High-quality bonds again provide meaningful contractual income and liquidity, particularly valuable while private-market distributions remain constrained.

Income and portfolio protection are not the same objective. The US 30-year Treasury yield is above 5%, close to levels not seen for almost two decades. The long end increasingly reflects not only inflation and monetary policy, but the scale of government borrowing and the premium investors require to absorb it. Long-duration bonds can protect portfolios in a disinflationary recession, but behave very differently when the shock is inflationary or fiscal concerns are driving yields higher.

Investment committees therefore need to be clear about the role of different parts of the allocation. Shorter-duration sovereign and high-quality corporate bonds can provide income, liquidity and lower duration exposure. Longer duration can provide convexity in some scenarios, but should not rely on the assumption that the negative stock-bond correlation of much of the post-2000 period will hold in every regime.

Private credit raises a different question. The market has broadened well beyond sponsor-backed direct lending. Direct lending remains the largest component, having risen from around 18% to 52% of private-credit assets over 15 years, but the opportunity set now includes asset-backed finance, leasing, infrastructure debt, receivables, fund finance and other specialist lending.[13] The diversification potential lies in those different sources of repayment.

Figure 5: Private Credit: Different Sources of Repayment and Risk

Private credit area	Principal source of repayment	Key risks
Sponsor-backed direct lending	Corporate cash flow and enterprise value	Leverage, margins, sponsor behaviour, refinancing
Asset-backed finance	Contractual payments and collateral	Asset quality, servicing, structure, residual value
Equipment and leasing	Lease payments and asset resale	Utilisation, obsolescence, secondary-market value
Infrastructure debt	Contracted or project cash flows	Construction, regulation, counterparty, demand
Real estate debt	Property income and collateral	Occupancy, rates, refinancing, local supply
Consumer / receivables	Household or invoice payments	Employment, collections, fraud, legal structure

Credit outcomes are also becoming more differentiated. Proskauer's Q2 2026 default rate was 2.51%, while Fitch's broader trailing 12-month measure was 6.0%.[14] The methodologies and borrower universes differ, so the numbers are not directly comparable. That itself is the point: a single headline default rate now says little about the whole market.

Pricing is beginning to reflect the same differentiation. Bonds issued by smaller listed private-credit firms have traded at materially wider spreads than those of several large platforms, reflecting differences in portfolio quality, funding access and scale.[15] Size does not automatically mean safety, but private credit can no longer be treated as a homogeneous source of floating-rate yield.

Liquidity deserves equal attention. Private-credit secondary volume reached $20.4 billion in the first half of 2026, more than double the previous year, while several semi-liquid vehicles faced redemption demand above normal repurchase limits.[14] More frequent dealing does not remove the economic cost of providing liquidity.

Higher liquid yields also raise the hurdle. Attractive headline private-credit yields matter less if much of the return is available in liquid government or public credit. The relevant question is how much additional return is being earned for credit risk, complexity and illiquidity, and whether that premium remains sufficient after fees and through a full cycle.

The strategic question is therefore not whether private credit is attractive as a single asset class. It is **which credit risks an institution is being paid to hold privately, how different they are from exposures already owned elsewhere, and whether the additional return compensates for the liquidity and complexity involved.**

AI: From Equity Theme to Multi-Asset Capital Cycle

AI remains one of the most important drivers of US equity concentration but viewing it primarily through an equity lens is increasingly incomplete.

The financing requirement is now spreading across the capital structure. Amazon, Alphabet, Meta and Oracle issued around $195 billion of bonds in the first half of 2026, compared with roughly $108 billion during the whole of 2025. Goldman Sachs estimates that issuance by five hyperscalers could reach around $250 billion in 2026 and $400 billion in 2027.[16] Alphabet has also broadened its funding through an inaugural A$5.5 billion Australian-dollar issue.

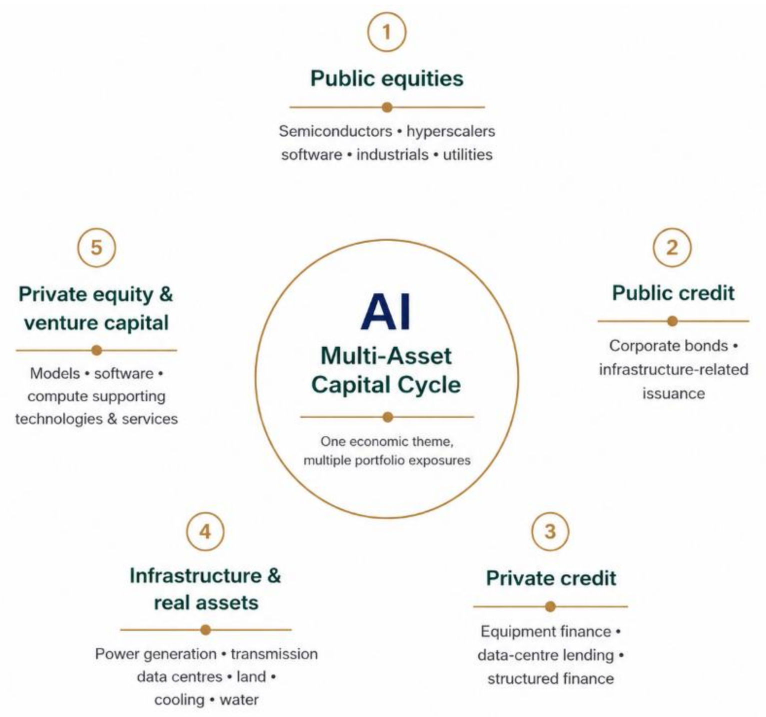
That matters because the same economic theme can now sit in several parts of the portfolio. An institution may own the equity of a hyperscaler, its investment-grade bonds, private financing linked to compute infrastructure and the physical assets supporting the same investment cycle. Each exposure can look attractive independently while aggregate dependence on the same assumptions rises.

Private capital is becoming equally important. Nvidia has announced compute-financing partnerships targeting more than $500 billion of third-party capital, with the option to provide up to $125 billion of backstop support. Intel also raised $20 billion through an upsized equity issue as it increased investment in manufacturing capacity.[17]

The significance is not the individual transactions. It is the changing financing model. Businesses that were substantial generators of free cash flow are becoming major users of external capital as AI-related investment grows, while financing is moving beyond conventional corporate borrowing into private credit, asset-backed structures and infrastructure partnerships.

The physical requirements broaden the exposure again. Data centres need generation capacity, transmission, land, cooling and water, increasingly drawing capital from infrastructure, real estate and private-credit portfolios.

Figure 6: AI Is a Multi-Asset Capital Cycle



The organisational challenge is clear. Equity, fixed-income, private-credit, infrastructure and real-asset teams may each reach sensible conclusions within their own mandates while the aggregate portfolio becomes increasingly dependent on the same assumptions around AI adoption, capital expenditure, financing conditions and future cash flows.

An investment committee does not need to decide whether AI will ultimately justify the capital being invested. It does need to understand where the exposure sits, which assumptions are common across apparently different investments, and how those exposures might behave if demand, technology or financing conditions develop differently from current expectations.

> | **AI is not simply another sector view. It is a test of whether an organisation designed around asset-class sleeves can see the economic exposures that cut across them**

Different Sources of Diversification

Diversification can come from different economic exposures, inflation sensitivity or genuinely uncorrelated active returns. These should not be treated as interchangeable.

Infrastructure looks increasingly well placed. Investment requirements across power, transmission, digital infrastructure, transport, logistics and other essential assets remain substantial, with AI, electrification, energy security and higher defence spending reinforcing demand. Parts of the asset class can also provide inflation alignment through regulated or contractual revenues, while infrastructure debt can offer floating-rate exposure alongside asset-backed cash flows. Entry valuation, regulation, financing structure and counterparty quality remain critical, but the combination of long-duration capital needs and potentially more persistent inflation makes infrastructure particularly relevant.

Real estate remains more selective. Higher financing costs have changed the economics of leverage, while rising construction and labour costs have made development more expensive. Data centres, logistics, supply-constrained housing, hospitality and selected repositioning opportunities can still offer attractive demand characteristics, but outcomes vary sharply by sector and location.

Gold occupies a different role. It produces no income or operating cash flow, so its investment case rests largely on its role as a store of value and hedge against currency debasement, geopolitical uncertainty and declining confidence in financial assets. Central-bank reserve diversification has also been an important source of demand, although purchases have moderated in 2026.

Commodities are different again. Many industrial commodities are driven more directly by physical supply and demand and therefore the global growth cycle. Slower Chinese growth changes that equation, particularly across industrial metals, while electrification, grids, digital infrastructure, defence spending and geopolitical disruption are creating new sources of demand and supply pressure. Commodities can protect in some inflationary environments, but they are not a uniform or permanent inflation hedge.

Hedge funds can provide another source of diversification where returns depend on active risk, relative value, macro or market-neutral strategies rather than traditional beta. The concentration of assets and talent among the largest multi-manager platforms also reinforces a broader theme: differentiated skill is becoming more valuable, and in some areas more expensive.

Currency completes the geographic allocation decision. A portfolio directing more capital towards Europe, the UK, Japan or other markets is also changing its exposure to the euro, sterling, yen and other currencies. Strategic hedge ratios and active currency management should therefore form part of the allocation discussion, not follow it. Fiscal trajectories also matter, particularly where international investors are reassessing the long-term role of the dollar.

The number of asset-class sleeves in a portfolio is not a measure of diversification. The underlying sources of return and risk are.

What Capital Market Assumptions May Not Yet See

Capital market assumptions remain essential to strategic asset allocation. They impose discipline, provide a common basis for comparing assets and help prevent portfolios being rebuilt around every short-term narrative.

They are also forward-looking in intention. Expected returns draw on current yields, valuations, growth, inflation and assumptions about longer-term equilibrium or mean reversion. Risk and correlation estimates necessarily begin with observed market behaviour, even when supplemented by scenarios and investment judgement. That is precisely why structural change can create a challenge.

Historical data reflect relationships formed under a particular set of market structures, policy regimes and sources of capital. When those conditions change, models can take time to recognise the significance because the new environment has not yet produced a long history of returns and correlations.

We explored this in our June 2026 paper, *A Quarter In: When Investment Committees Begin Reassessing Assumptions*. Geopolitical shocks, technological disruption and changes in inflation or interest-rate regimes can develop faster than historical models are designed to absorb.

Today's bond market makes the issue tangible. With the US 30-year Treasury yielding above 5%, the hurdle rate for the rest of the portfolio has changed. Equities need sufficient earnings and cash-flow growth to justify additional risk. Higher financing costs make leverage less supportive of private equity returns. Private credit, infrastructure and other illiquid assets must offer enough incremental return to compensate for illiquidity and complexity when liquid government bonds already provide substantial income.

> **When the liquid hurdle rate moves above 5%, every illiquid allocation has to re-earn its place in the portfolio**

There is also a deeper question. US Treasuries remain the conventional nominal dollar risk-free benchmark, but long-duration bonds still carry duration, inflation and mark-to-market risk. If higher yields partly reflect fiscal uncertainty and growing government debt supply, investment committees need to decide whether current rates are temporary or a more persistent feature of the environment. Either view has consequences for the rest of the portfolio.

Normalisation provides another example. Historical returns capture the exceptional US performance that produced today's portfolio weights but will be slower to reflect the effects of changing marginal capital flows. Those flows can themselves influence liquidity, financing, transaction activity and ultimately future returns.

Private markets face a similar issue. Historical private equity returns were earned through long periods of falling financing costs, expanding multiples and shorter holding periods. Today's environment is one of higher financing costs, longer holds, weaker distributions and a much larger private-market NAV.

AI may be the clearest illustration. There is no long historical return series capturing a capital cycle simultaneously affecting semiconductor equities, hyperscaler bonds, private compute financing, data centres, power and grids. A CMA can estimate each asset class separately. The investment committee still has to judge whether those allocations increasingly depend on the same economic outcome.

Some institutions are also moving towards a Total Portfolio Approach, using portfolio-level objectives and risk budgets to reduce reliance on fixed asset-class silos. Others are using tools such as programme-level leverage and portable alpha to manage risk and return more dynamically. The structures differ, but the underlying requirement is the same: understand the economic exposures across the whole portfolio and test whether the assumptions supporting them remain appropriate.

The answer is not to replace quantitative work with opinion. It is to challenge assumptions with information that may not yet exist in the historical dataset: current valuations, capital flows, transactions, corporate behaviour, market structure and scenario analysis.

CMAs can compare the opportunities that can be modelled. Strategic asset allocation still requires investment committees to recognise when the opportunity set itself may be changing.

Conclusion: What Should Investment Committees Do Now?

The value of an investment committee lies in its ability to challenge, debate and exercise judgement, not simply validate the portfolio that already exists. When the opportunity set is changing, that responsibility becomes more important. The evidence in this paper does not lead every institution to the same allocation, but it does point to five areas that deserve active discussion around the investment committee table.

- **Challenge the CMA process.** Are quantitative assumptions being supplemented with enough current information and judgement to identify structural change before it becomes embedded in the historical record? With long-term yields materially higher, are the economic assumptions supporting expected returns elsewhere in the portfolio being tested hard enough?
- **Challenge the geographic allocation.** Normalisation is moving from recognition towards validation. Europe, the UK, Japan and parts of Asia warrant deeper research and stronger investment pipelines, although each market is at a different stage. The issue is not recent relative performance, but whether changing capital flows and market conditions are altering the future opportunity set.
- **Challenge how AI is viewed across the portfolio.** Equity, credit, private markets and real-asset teams may each make sensible decisions while collectively increasing exposure to the same capital cycle. The organisation needs a view across those silos.
- **Challenge the boundaries between public and private markets.** Understand how capital will ultimately be returned, where exposures sit on the liquidity spectrum, and whether aggregate risk is being measured consistently across both.
- **Challenge whether active mandates are genuinely active.** Benchmark enhancement and high-conviction investing are different objectives. Mandates, risk budgets and governance should reflect that distinction.

None of these questions requires an immediate change in strategic weights. Their purpose is to test whether the assumptions that produced the current portfolio still deserve the same confidence.

For some institutions, they will. For others, the first response may be to broaden research, redirect future commitments, reconsider mandate design or look differently across traditionally separate asset classes.

Strategic asset allocation is not only about estimating returns from the portfolio you know. It is also about recognising when the opportunity set is changing and leading the organisation's response with judgement and discipline.

Notes and Sources

1. **Bank of America Global Fund Manager Survey, December 2024:** record US equity allocation and largest US overweight relative to the eurozone since 2012. Reuters, 17 December 2024.
2. **Border to Coast:** plans to shift c.5–10% of listed US investments towards Europe and Asia, citing US technology concentration. Reuters, 16 June 2026.
3. **Dutch pension funds:** net €30bn of US securities sold and €23bn of European securities purchased in 2025; €18bn of the US sales were sovereign and corporate bonds. De Nederlandsche Bank.
4. **UK corporate activity:** foreign bids for UK companies exceeded $197bn in 2026 YTD, representing 86% of UK M&A value. Reuters/LSEG.
5. **European infrastructure:** CPP Investments and Goodman Group established an A$14bn European data-centre development partnership. CPP Investments.
6. **UK equity ownership:** UK pension funds and insurance companies together owned 52.1% of UK quoted equities in 1990 (31.7% and 20.4% respectively), falling to 2.8% in 2024 (1.6% and 1.2% respectively); overseas investors owned 58.8% in 2024. Office for National Statistics, *Ownership of UK quoted shares: 2024*, 29 January 2026.
7. **US equity concentration:** S&P 500 constituent data, 31 August 2026. S&P Dow Jones Indices.
8. **Private equity fundraising:** ten largest US PE funds captured 46% of capital raised through September 2025, versus 34.5% in 2024. FT/PitchBook/Preqin, January 2026.
9. **Private equity dispersion:** top-to-bottom quartile manager dispersion above 1,400bps versus c.300bps for public equity managers. KKR, *A Clearer View of Private Equity*, July 2026.
10. **European middle market:** HarbourVest, European middle-market private equity research, 2026.
11. **Private equity distributions:** global PE distributions were 12% of NAV in 2025 versus a 21% long-term average. StepStone, *Private Equity 2026 Market Outlook*.
12. **Private equity backlog:** c.32,000 unsold PE-backed companies valued at approximately $3.8tn, with average holding periods around seven years. Bain, 2026; see also McKinsey, *Global Private Markets Report 2026*.
13. **Private credit composition:** direct lending increased from c.18% to 52% of private-credit assets over 15 years. Morgan Stanley Investment Management.
14. **Private credit defaults and liquidity:** Proskauer Q2 2026 default index 2.51%; Fitch trailing 12-month US private-credit default rate 6.0%; secondary-market volume $20.4bn in H1 2026, +122% YoY. Proskauer/Fitch/Reuters.
15. **Private credit pricing:** smaller listed private-credit lenders showed materially wider bond risk premia than several large BDCs. Reuters, 21 May 2026.
16. **AI bond issuance:** Amazon, Alphabet, Meta and Oracle issued c.$195bn of bonds in H1 2026; five hyperscalers could issue c.$250bn in 2026 and $400bn in 2027. Goldman Sachs.
17. **AI financing:** Nvidia-backed compute-financing platforms target more than $500bn of third-party capital, with Nvidia able to provide up to $125bn of backstop support; Intel raised $20bn of equity in August 2026. Reuters, August 2026.

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Jahangir Aka is an investment professional and strategic adviser with over 25 years' experience across asset management, global capital markets and financial services. He has held senior leadership roles at Neuberger Berman, SEI Investments and Standard Chartered, building and scaling businesses across Europe, the Middle East, Africa, Asia and Latin America.

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In 2025, he founded Aka & Associates, an independent advisory firm translating asset owner priorities into investment and capital strategies. The firm advises asset owners on portfolio strategy, investment decision-making and investment committee effectiveness, and works with asset managers on capital strategy and market development.

Jahangir is a frequent speaker at global investment forums and has appeared on Bloomberg and CNBC.

Paul O'Brien

Paul O'Brien is a Trustee, Chair of the Audit and Risk Committee, and member of the Investment Committee of the Wyoming Retirement System, the public pension fund supporting state and local employees in Wyoming. He is associated with the Institutional Investor Middle East Institute and is active as an adviser to major global institutional investors and as a conference speaker.

From 2009 until 2019, Paul was Head of Fixed Income Strategy and Deputy Chief Investment Officer at the Abu Dhabi Investment Authority. He helped lead both strategic and tactical asset allocation, benchmark selection, portfolio construction, and research, as well as advising ADIA's Investment Committee. He managed a multi-national team of over 20 investment professionals with expertise across all asset classes as well as economics and quantitative methods.

Before joining ADIA Paul was a global fixed income portfolio manager at Morgan Stanley Investment Management (MSIM) in London and West Conshohocken, PA. He worked with institutional investors around the world with a focus on interest rate and currency strategies.

Prior to that, he worked as an economist for Morgan Guaranty Trust Company in Paris and in London as Head of Morgan's European economics team. Paul started his career as Economist and then Section Chief at the Board of Governors of the Federal Reserve System in Washington, DC. He worked in the Division of Monetary Affairs and regularly briefed the Board on monetary policy issues and developments in financial markets. While at the Federal Reserve he was seconded to the Bank for International Settlements in Basel, Switzerland, and the Organization for Economic Cooperation and Development in Paris.

Paul has a PhD in Economics from the University of Minnesota. He attended the US Naval Academy and received his undergraduate degree from the Massachusetts Institute of Technology.

Aka & Associates

Aka & Associates is an independent advisory firm working with asset owners and asset managers on portfolio strategy, investment committee advisory, capital strategy and international market development.

For asset owners, we act as an independent adviser to CIOs and investment committees on portfolio strategy, manager selection and key investment decisions. This can include ongoing IC participation, periodic portfolio reviews or a standing sounding-board role.

For asset managers, we translate what we are hearing from asset owners into capital strategy, product positioning and international market development.

Our work is informed by continuing dialogue across the investment ecosystem, bringing an independent perspective to both capital allocation and capital formation.

If these themes are relevant to your portfolio, investment committee or capital strategy, we would welcome a discussion.

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