

Hypothetical Scenario-Based Multi-Asset Portfolio Construction

Decision-Making Framework

****Detailed investment content of the portfolio is not included, as this type of financial material is not appropriate for public release, given the legal and regulatory considerations involved.*

Investor Profile and Objective

Portfolio construction begins with a simple question: what outcomes must the portfolio deliver for the client, and under what conditions must it remain resilient?

In this case, the investor was a hypothetical £1 billion UK university endowment. I began by outlining a client profile, including the return objective, risk tolerance, time horizon, liquidity needs, tax status and any relevant preferences and constraints.

This led to the central portfolio objective: to maximise long-term risk-adjusted returns while providing income to support annual spending requirements.

Portfolio Requirements

Having established the investor profile and corresponding objectives, I translated these into practical portfolio requirements to ensure a consistent and precise alignment with client needs. This included specifying permissible levels of illiquidity, defining the required return profile, and determining how sustainability and exclusion-related constraints would be implemented.

From there, the focus shifted to a nuanced consideration of the geopolitical and economic developments that are likely to influence portfolio performance, with an emphasis on adaptability and resilience across different scenarios.

Geopolitical and Economic Views

In an increasingly unpredictable world, geopolitical risk is no longer peripheral to investment analysis – it is central. Geopolitics shapes the economic landscape and feeds through into financial market outcomes. In fact, many of the risks that matter most to markets originate outside of financial markets, which makes structured analysis essential to turn this uncertainty into clear, well-supported judgement.

This portfolio was constructed against the backdrop of early January 2026, in conditions of sticky inflation, uncertainty regarding interest rate expectations and heightened geopolitical tensions.

In line with the hypothetical client profile, the challenge was to build a portfolio in line with aspects including a CPI + 4% return and annual spending at ~4% of portfolio value. Importantly, the portfolio needed to remain adaptable in case the investment context diverged materially from prevailing market views at the time of portfolio construction.

This led me to focus on how geopolitical and economic forces would most likely shape asset returns, liquidity, cross-asset correlations, and capital flows.

Portfolio Structure and Exposure

This is the stage at which asset return and volatility forecasts, as well as the underlying geopolitical and economic views, were translated into specific asset allocation decisions.

1) Top-Level Asset Allocation Structure

I first determined the overarching role that each asset bucket should play in the portfolio. In this case, the allocation was structured around:

- Fixed income and cash: provide income, liquidity, and capital preservation, with relatively low volatility
- Equities: serve as a key growth engine, with higher expected returns and volatility
- Alternatives: enhance risk-adjusted returns, providing stable cash flows and diversification benefits

2) Asset Class Segment Exposures

Once the top-level portfolio structure was established, I selected specific exposures aligned with key components of the client profile. Importantly, I considered how these assets would interact to meet client objectives, rather than evaluating assets and their individual characteristics in isolation. For example, within the equities bucket, I diversified across market capitalisations, regions and sectors to mitigate concentration risk, particularly given the elevated AI exposure in US large cap equities. At the same time, I favoured assets with strong forward-looking performance potential, supported by expected geopolitical and economic developments.

**Asset class segment allocation weights have been omitted intentionally, as this material is provided for informational purposes only and does not constitute investment advice.*

Asset Class	Weight	Asset Class Segment	Weight
Fixed Income / Cash	10%	UK Cash (Base Currency)	-
		World Government Bonds Hedged (3-10 Year Maturities)	-
		Emerging Markets Local Currency Debt (Inc. Green Bonds)	-
Equities	40%	US Large Cap	-
		Euro Area Large Cap	-
		Japanese Equity Hedged	-
		Emerging Markets	-
Alternatives	50%	Direct Lending	-
		Private Equity (Inc. Impact Funds)	-
		Diversified Hedge Funds Hedged	-
		Global Core Infrastructure (Inc. Exposure to Energy Transition)	-
		Gold	-

3) Sustainability and Exclusion-Related Considerations

The portfolio was built under the assumption that the endowment has a fiduciary responsibility to allocate $\geq 15\%$ of assets to strategies that explicitly target sustainability, with no investment permitted into the arms, tobacco and gambling industries.

The sustainability component was targeted through a combination of:

- Emerging market green bond exposure
- Impact-orientated private equity exposure
- Global core infrastructure with energy transition exposure

This mix of investments ensured variability across risk/return and investment horizon profiles, enhancing the portfolio's resilience across market environments.

Exclusion-related considerations were also assessed. However, in a real implementation scenario, these would require stricter definition and application, particularly in the case of index-based exposures, where exclusions require rigorous monitoring.

Allocation Rationale

This represented the core analytical part of the process. The objective of the allocation rationale was to articulate the distinct role of each asset class segment within the hypothetical portfolio. The analysis combined asset specifics with broader geopolitical and economic factors, recognising that asset behaviour is shaped not just by asset fundamentals but also by the wider investment context.

The rationale was split into four parts:

1. Role of the asset within the portfolio
2. Main benefits of inclusion
3. Key risks associated with the asset
4. Risk management approach

The portfolio construction process shed light on the importance of considering deliberate and well-evaluated trade-offs. This meant balancing potential returns against volatility, liquidity requirements and exposure to potential shocks arising from geopolitical and economic dynamics.

In practice, every asset allocation decision involved an opportunity cost of allocating capital to one asset over another. My approach consisted of making these trade-offs explicit and prioritising the aspects that were most important to the client.

Portfolio Risk-Return Profile

After determining the baseline asset allocation and corresponding weights, I conducted quantitative analysis of the asset-level risk-return characteristics. These characteristics were then evaluated in conjunction with concentration and liquidity risks.

To support this process, I assessed each asset's projected weighted contribution to the overall risk and return in Excel. This enabled me to iterate on the allocation and optimise asset weights to better align with the client profile and objectives.

Given the hypothetical client's perpetual time horizon and high tolerance for illiquidity, the portfolio was able to take on a higher level of risk in pursuit of higher potential returns.

I complemented this data-driven analysis with a qualitative assessment of how the portfolio would behave across different investment environments:

Base case:

- Inflation continues to moderate gradually, interest rates become less restrictive, and economic growth remains positive but uneven.

- The portfolio benefits from its existing diversified exposure across asset classes, regions, and currencies.

Bull case:

- Inflation moderates faster than expected, interest rates fall faster than expected, and economic growth accelerates broadly across regions.
- Portfolio performance is driven primarily by equities and private equity, with defensive assets playing a smaller role.

Bear case:

- Inflation rises or remains persistent long-term, interest rates remain elevated, and economic growth deteriorates sharply, potentially leading to a recession.
- Defensive allocations, including government bonds, gold and hedge fund strategies, act as a portfolio ballast to help offset any capital losses.

Risk Management Framework

The purpose of the risk management framework was not simply to control volatility while enhancing returns, but to build a portfolio that remains resilient across wide-ranging investment scenarios. To achieve this, I focused on five key risk management aspects:

1. Diversification across assets, sectors, geographies and currencies
2. Scenario and stress-test analysis, considering various inflation, growth and geopolitical backdrops
3. Rigorous liquidity management, particularly given annual spending needs and exposure to illiquid assets
4. Portfolio rebalancing to manage asset allocation drift over time
5. Currency management, including hedging using FX forwards where appropriate
6. Monitoring concentration exposure, particularly in themes with heavy allocations such as US technology
7. Implementation realism, including private market liquidity constraints

Potential Challenges to The Current Portfolio View

The current allocation could be challenged by various factors, including:

- Unexpected geopolitical or economic shocks
- Instability in key currency regimes
- Signals that concentration in key growth themes has become excessive

In such cases, the portfolio was designed to remain adaptable, with sufficient liquidity and flexibility to adjust exposures through tactical asset allocation.

What This Project Demonstrates

The purpose of this project was not only to construct a coherent multi-asset portfolio and articulate allocation decisions, but also to demonstrate the first principles decision-making process that underlies its construction. Specifically, this work highlights five elements of my approach:

- **Structured thinking** – shifting from top-down views to allocation decisions and iterative portfolio refinements

- **Judgement** – distinguishing between noise and signals that guide portfolio decisions
- **Trade-off awareness** – recognising that each decision involves an opportunity cost
- **Originality** – building an independent view using a first principles approach
- **Forward-looking considerations** – considering elements that would challenge the existing portfolio view

Areas For Further Refinement

If I were to build on this project, certain areas could be refined further:

- More detailed implementation analysis – incorporating approximate transaction costs and liquidity constraints
- More granular risk-return scenario analysis – integrating geopolitical and economic factors more explicitly from a quantitative perspective
- A more clearly defined asset allocation framework – formalising rules for adjusting exposures in response to shifting market conditions and expectations

Summary

This hypothetical scenario-based portfolio construction explored how a UK-based university endowment could be positioned in an investment context of sticky inflation, uncertain interest rate expectations, and rising geopolitical risks. To enhance analytical rigour, there was also a consideration of potential deviations from prevailing views and details on how the portfolio would remain resilient across scenarios.

The resulting portfolio was intentionally diversified across public and private assets, with a balance between income-generating strategies and long-term growth drivers. The endowment portfolio's overall composition reflected the investor's perpetual time horizon, high risk tolerance, liquidity requirements, and sustainability and exclusion-related constraints.

Taken together, this work is intended to show not just what the portfolio would consist of and the rationale behind it, but also the structured decision-making framework that underlies the construction process.