# The Evolution of Asset Allocation in Australia's Private Wealth Management Industry: From Simplicity to Sophistication

## Introduction

Asset allocation is the process of distributing capital across various investment asset classes – such as equities, bonds, real assets, and alternatives – to optimise the balance between risk and return in an investment portfolio. In Australia, asset allocation is the cornerstone of institutional and private wealth management and the driving force behind long term wealth creation.

Over the past two decades, Australia's private wealth management industry has undergone a quiet revolution in how portfolios are constructed and managed. Once dominated by traditional 60/40 equity-bond splits, asset allocation has evolved to reflect a more dynamic, diversified, and risk-aware approach. Looking ahead, with shifting geopolitical and economic paradigms, we believe asset allocation strategy will play a key role in navigating the current environment.

## Why Asset Allocation Matters

Academic research and decades of empirical evidence show that asset allocation, rather than security selection or market timing, is the primary determinant of long-term investment portfolio performance. Indeed, it is widely accepted in academic literature that asset allocation can account for approximately 80% of the overall investment performance of a portfolio, over the long-term.

The fundamental principle behind asset allocation is diversification – by allocating capital across different risk and return profiles with low correlation to each other, the overall risk of an investor's portfolio can be reduced in the long run. Different asset classes respond differently to economic cycles, inflation, and market shocks, making diversification the most effective way to manage risk and achieve consistent returns.

## Asset Allocation in Australia: The "Home Bias"

Over decades, the prevailing asset allocation for Australian investors has demonstrated a strong preference for domestic assets, a phenomenon known as "home bias". There have been several reasons for this, including familiarity and perceived safety, attractive dividend yields, and the benefits of the Australian franking credit tax framework. As a result, despite Australians' enthusiasm for international travel, their investment portfolios have historically remained close to home, with overweights to domestic equities and fixed income.

Insights sourced from National Australia Bank and Investment Trends Pty Ltd shows that the majority of Australian investors and self-managed super funds (SMSFs) had allocated a significant portion of their assets to ASX-listed shares, with only a small fraction invested internationally – even though Australian equities represent just about 2% of the global market.

While this can provide the aforementioned tax and familiarity benefits, an equity portfolio with a bias towards Australian Equities can bring additional risks, stemming from the high concentration within the market (with ~60% of the market being made up of financials & mining companies).

What's more, this domestic focus can also result in missed opportunities across global markets – most notably over the past three years with the rapid emergence of artificial intelligence companies, particularly in the United States and more recently in China.

Over the last 25 years (to December 2024), the Australian equity market has outperformed the global index, owing to the more stable nature of the companies comprising the index, primarily banks and resource companies, which were largely spared from the Dot Com Bubble (in early 2000) as well as the Global Financial Crisis (GFC) equity drawdowns.

However, this stability has come at a price. Examining more recent holding periods has shown a significant underperformance in Australian Equities relative to the global market, which has been largely driven by advancement in technology companies.

## The Case for Global Diversification

JBWere's work on asset allocation and historical market data have shown the benefits of a more diversified approach to allocating capital in equities, rather than a highly concentrated approach. Combining Australian and international equities have historically delivered better risk-adjusted return outcomes, delivering higher returns and lower volatility.

Currency management also highlights an aspect of international equities that naturally cushion portfolios during market sell-offs. In diversified portfolios, defensive assets (fixed income) are typically hedged to AUD to minimise risk, while growth assets (such as equities) are left unhedged to benefit from the natural diversification provided by currency movements during market shocks.

With the increasing sophistication and access to markets, the tide has been shifting in Australian investor portfolios. The Australian superannuation industry, which holds approximately $4.1trn in assets (as at March 2025) has exhibited this change, with many industry superannuation funds having historically displayed a similar bias towards domestic equities. More recently this has shifted with industry superfund domestic equity allocations being reduced to fund investments in global equities, as well as other assets including infrastructure and gold.

## Evolving Asset Allocation in Australia: Moving Beyond 60/40

The traditional 60/40 portfolio (60% equities, 40% bonds) has long been a default for balanced investors. However, Australian asset allocation frameworks are evolving.

Along with the increased allocation to international equities, there has been a greater broadening in asset allocations across investors, to diversify and capture opportunities within Australia and abroad.

Historically a static asset allocation (such as 60/40) had served investors well, however we believe that the future outlook for investment assets may look markedly different from history. Rising yields, slowing global growth and increased risks around geopolitics and inflation have denoted a regime change from previous decades. With equity markets at all-time highs, in our view, investors are faced with a flatter risk/reward curve, with less incremental return received for the additional amounts of risk taken. In this volatile environment, a nimbler process around asset allocation is needed, allowing investors to optimally allocate capital as the investment landscape continues to evolve.

## The Role of Private Markets

Structural shifts in how global companies and assets are funded, as well as innovations in managed fund structures, have played a large role in the democratisation of private assets. Once the domain of institutional investors, high-net-worth clients have increasingly sought exposure to this asset class.

Accessing the full breadth of investment markets now requires exposure beyond traditional public equities and bonds. The appeal in private assets lies in the potential for superior long-term returns, enhanced control over investments and diversification benefits. While the underlying risk of these assets is similar to their counterparts, opportunities can be accessed that may be otherwise unavailable to retail investors, potentially allowing investors to capture additional alpha in portfolios. We therefore see private markets increasingly become a vital component of Australian investor portfolios. This trend is expected to accelerate as governments grapple with record debt levels and companies remain private longer. Firms like JBWere are playing a key role in bridging the gap, offering due diligence, operational support, and access to top-tier managers.

## Conclusion

Asset allocation is the predominant driver of long-term investment outcomes for an Australian investor. By following a disciplined, research-driven process anchored in strategic asset allocation, robust risk management, and regular review – investors can build resilient portfolios tailored to their goals and risk tolerance. The Australian context adds unique considerations around home bias, currency, and regulatory environment, but the core principles of diversification, risk-return optimisation, and disciplined implementation remain universal.

At JBWere, we incorporate a broader range of asset classes including Alternatives, Infrastructure, Private Assets (Credit & Equity), and ESG-focused investments to build asset allocations more tailored to each specific investor and what they are trying to achieve. There is also a growing client demand for personalised, purpose-driven portfolios with more quantifiable outcomes for sustainability.

As macroeconomic uncertainty persists, the focus is shifting from pure returns to capital preservation, liquidity management, and intergenerational wealth transfer.

The modern Australian portfolio is no longer just about growth – it's about sustainability, adaptability, and legacy.

By embracing change, Australian investors can better align their portfolios with global trends and unlock value beyond traditional public market exposures.

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## Australia's Investment Funds Market – What Luxembourg Managers Should Know

Australia runs one of the world's largest funded retirement systems. Compulsory superannuation contributions have created an asset-owner pool now well above $4 trillion Australian dollars. This capital is dominated by very large superannuation funds, insurers and sovereign wealth vehicles, and is complemented by a sophisticated ecosystem of endowments, family offices and self-managed super funds. Allocation is global and increasingly focused on alternatives, including private equity, private credit, real assets, infrastructure and venture capital.

Alongside this sits a substantial investment funds industry. The traditional framework is the Managed Investment Scheme regime, typically structured as unit trusts. More recently, the Corporate Collective Investment Vehicle has been introduced. The listed funds sector is also highly active: exchange traded funds have strong retail and institutional take-up, while Listed Investment Trusts and Listed Investment Companies provide closed-end exposure and capital raising flexibility. Wholesale and professional investors access funds through information memoranda, while retail investors typically invest through platforms and financial advisers.

Importantly, self-managed superannuation funds add a very large base of direct, sophisticated investors with a growing appetite for international opportunities.

Luxembourg is already Australia's seventh-largest foreign investor-with over A$ 103.9 billion in investment stock and A$ 7 billion in direct investment. However, Luxembourg was notably absent from Australia's recently announced tax treaty expansion program, which seems to prioritise countries with less strategic investment relationships.

The absence of a Double Taxation Agreement (**DTA**) between Australia and Luxembourg, however, is a material barrier. In practice, this means a withholding tax of 30% on unfranked dividends and 10% on interest, less clarity on the treatment of permanent establishments, business profits and capital gains, and more complex operational requirements for accessing concessional regimes. These frictions reduce net yields, add diligence costs and slow transaction execution.

A modern DTA would address these constraints directly. It would provide reduced withholding tax rates, clear allocation of taxing rights and recognition of widely held collective investment vehicles and real estate investment trusts in line with modern OECD standards. This would lower the cost of capital, improve after-tax returns and create faster, more predictable pathways for fund registration, co-investment, secondary transactions and mandate funding.

Beyond the funds industry, opportunities for collaboration extend to strategic sectors. Australia's decarbonisation will require long-dated investment in generation, storage, transmission and nature-based solutions. Luxembourg brings structuring expertise in green bonds, sustainability-linked instruments, blended finance and transition funds, as well as access to global institutional capital. Both countries also host active space industry clusters in satellite communications, earth observation and in-space resources.

The Australia New Zealand Chamber of Commerce (**ANZCCL)** in Luxembourg has called on both governments to prioritise negotiation of a modern DTA. This remains the single most important step to unlocking the full potential of Australia–Luxembourg capital flows. Interested stakeholders are invited to contact Maria Pawelek at ANZCCL on maria@anzccl.lu to discuss opportunities for collaboration and support with building business use cases.

**Want to go deeper? Join us on 23 September for our lunch briefing session – Scan to register**

**Next stop: Luxembourg**

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