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#### SUMMARY

- RiverFront believes asset allocation is the dominant driver of investment returns.
- No asset class wins every year – and that's exactly why diversification works.
- RiverFront believes asset allocation should be dynamic, not static.
- RiverFront believes in combining 'strategic' (long-term) views of an asset class's value with 'tactical' opinions of shorter-term drivers.

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## Asset Allocation Drives Returns

### Strategic and Tactical Aid in the Process

*No asset class wins every year – and that's exactly why diversification works. Because performance leadership rotates unpredictably across asset classes year-to-year, a well-diversified portfolio captures broad market returns, reduces volatility, and enables the power of compounding. Trying to pick winners annually is a losing game, in our view; owning the right mix consistently is not.*

Asset allocation – determining the appropriate mix of stocks, bonds, and cash in a portfolio – is the foundation of portfolio management. The right mix should minimize volatility and risk while allowing investors to work toward their objectives. RiverFront believes this is best achieved using robust return estimates for stocks and bonds, known as capital market assumptions (CMAs), to determine the optimal allocation. We further believe that once set, this allocation must be dynamically updated.

### The Study That Binds Investors to Asset Allocation

Forty years ago, researchers Gary Brinson, L. Randolph Hood, and Gilbert Beebower<sup>1</sup> set out to explain the importance of asset allocation versus manager selection as it pertained to pension fund returns. This influential study suggested that 93.6% of the variability in portfolio returns were explained by asset allocation over the sample of ninety-one large US pension funds. In the years since the study, there has been discussion about the validity of asset allocation accounting for so much of the investor's portfolio return.

In 2000, Ibbotson and Kaplan published a paper in the *Financial Analysts Journal* entitled, "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?"<sup>2</sup> The duo found that asset allocation policy explained 90% of the period-to-period variability of mutual funds returns, while it only explained 40% of the variability of returns between funds. The variability of returns between funds was mostly explained by active decisions, style preferences, and fees. In the twenty-six years since the Ibbotson and Kaplan paper, asset allocation has been influenced by globalization. Globalization may have dampened some of the diversification benefits due to domestic and international equities becoming more correlated. However, asset allocation still accounts for most of the investor's return, in our view.

### The RiverFront Approach: Strategic and Tactical Unite

At RiverFront, we view asset allocation as the primary driver of returns in our portfolios, while looking at the process through several different lenses, including a 'strategic' (long-term, i.e., seven years or longer) lens and a

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<sup>1</sup> Brinson, Gary P., L. Randolph Hood, and Gilbert L. Beebower. "Determinants of Portfolio Performance." *Financial Analysts Journal*, vol. 42, no. 4, July-Aug. 1986, pp. 39-44.

<sup>2</sup> Ibbotson, Roger G., and Paul D. Kaplan. "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?" *Financial Analysts Journal*, vol. 56, no. 1, 2000, pp. 26-33.

'tactical' (shorter than one year) lens. Capital market assumptions (CMAs) aim to find the optimal asset allocation investment mix for a portfolio. At Riverfront, we create our own CMAs and adjust the asset mix depending on the time horizon for which we are optimizing the portfolio. At the other end of the spectrum, tactical asset allocation focuses on a time horizon of less than a year, typically 3 to 6 months. While we do not believe that investors can time the market, implementing strategic and tactical asset allocation together in our investment process allows for a smoother investment experience. We believe history has shown that equities have positive returns over long periods, so it is important that clients do not abandon their investment strategy after a period where they have experienced a large drawdown because it locks in the losses. Large losses jeopardize the investor's ability to meet their financial goals. Hence, why we feel it is important to combine strategic and tactical asset allocation to try to mitigate large drawdowns in the stock market and keep our clients invested throughout market cycles.

Our strategic asset allocation process begins with developing capital market assumptions for stocks over a seven-year time horizon. Using historical market returns for each asset class, we assess how far they deviate from their long-term trend as one of several inputs. For stocks, we build bottom-up discounted cash flow models to evaluate future earnings and cash flow. Finally, we model path-dependent interest rate outcomes to determine the appropriate allocation to bonds and cash. Together, these inputs produce the asset class weightings for stocks, bonds, and cash.

RiverFront's tactical process underscores that asset allocation is not a "set it and forget it" exercise. Designed as a dynamic shock absorber, it adjusts the stock, bond, and cash mix for short periods to keep investors invested during uncertainty. The process allows the stock/bond allocation to swing up to twenty percentage points in either direction – becoming more bullish when undervalued assets gain upward momentum, and more bearish when overvalued assets encounter downward momentum.

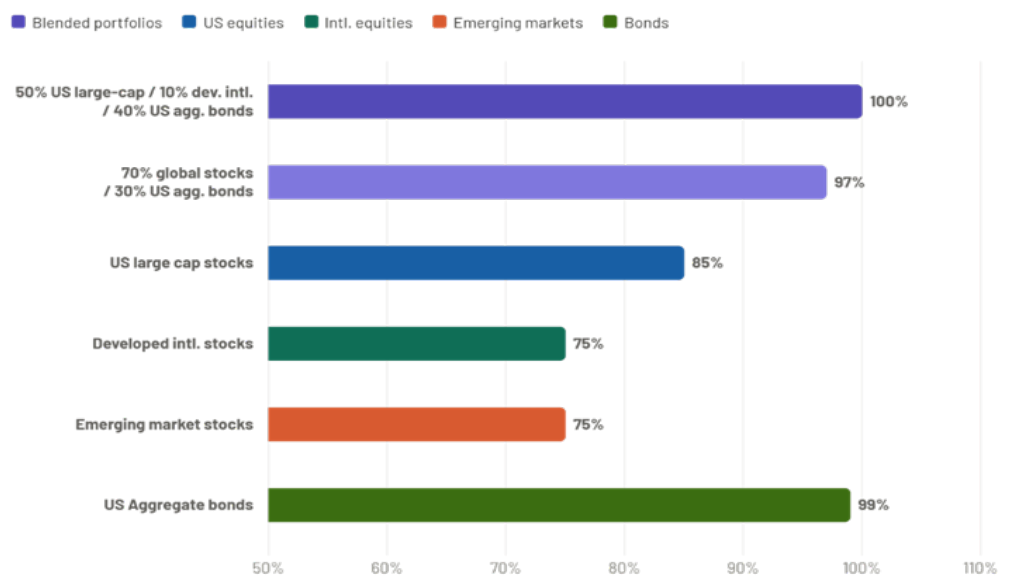
While our strategic process seeks long-term value, our tactical asset allocation targets asset classes with sustainable momentum over 3-to-6-month horizons. Our research going back to 1927 found that the S&P 500 produces positive 3-month forward returns 64% of the time – meaning stocks go up more often than they go down. Long-term investors should therefore maintain a bias toward owning stocks to benefit from this positive payoff profile.

### The Importance of Diversification

We believe that the asset allocation process is important because it allows us to build diversified portfolios that seek to limit idiosyncratic risks that can create undue volatility that inhibits investors from hitting their investment goals. By limiting the volatility through strategic asset allocation, year-to-year portfolio returns are more predictable, which creates the ability for portfolios to grow through compounding. Simply put, asset allocation helps to mitigate large drawdowns that require taking additional risk to stay on target of hitting a financial plan.

To put this concept in perspective, we looked at rolling 7-year returns for the major equity and bond indices to analyze the percentage of time over

#### % OF ROLLING 7-YEAR PERIODS WITH POSITIVE RETURNS - 2000-2025



Source: RiverFront research, 2000-2025. Chart shown for illustrative purposes only. Past performance is no indication of future results.

the past 25 years that the asset class had a positive return (see chart, above). The benefits of diversification become clear when examining blended portfolios. A portfolio combining 50% US large-cap stocks, 10% developed international stocks, and 40% US Aggregate bonds produced positive returns in 100% of rolling 7-year periods between 2000 and 2025 (see top purple bar on chart, previous page). Similarly, a broadly diversified portfolio of 70% global stocks and 30% US Aggregate bonds (2nd purple bar down on chart) was positive in 97% of those same periods. These percentages are higher than all of the equity asset classes in isolation. These figures reinforce a simple but powerful truth: **diversification doesn't just reduce risk – it dramatically improves the consistency of outcomes for long-term investors.**

**LEADERBOARD CHANGES BY YEAR, BUT DIVERSIFICATION POWERS THROUGH OVER THE LONG-TERM**

Focusing on the last ten years, the accompanying chart below highlights the importance of asset allocation...because no two years are the same. For example, we can focus on the path of Emerging Market Equities (dark purple box) in the table below over the past 10 years. As you can see, it fluctuates widely throughout the chart, spending two years atop the leaderboard as the best asset class and two years at the absolute bottom. The chart emphasizes the importance of the asset allocation process being continuous and not a one-and-done proposition, because no asset class dominates every year.

Diversified portfolios tend to benefit from compounding over long periods of time, which makes the subtle changes between asset classes important to the asset allocation returns. You can see a simple blended portfolio of 70% ACWI (global equities) and 30% Aggregate bonds (orange box)...it's never at the top in any given calendar year. However, through a decade-long market cycle (2016-2025), it ends up having a 10-year average performance (see right column on table, highlighted) similar or better than everything on the table except US stocks... despite possessing a meaningful volatility 'shock absorber' in the form of US bonds. **This is what we'd call the power of diversification.**

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	10-Year Average
21.31% Small Cap	37.28% Emerging Market Equities	1.82% Cash	31.49% Large Cap	19.96% Small Cap	28.71% Large Cap	1.52% Cash	26.29% Large Cap	25.02% Large Cap	33.57% Emerging Market Equities	14.79% Large Cap
17.49% High Yield	25.03% Developed Int'l Equities	0.86% Treasury Bonds	25.52% Small Cap	18.40% Large Cap	14.82% Small Cap	-11.22% High Yield	18.24% Developed Int'l Equities	12.43% 70% ACWI, 30% AGG	31.22% Developed Int'l Equities	9.58% Small Cap
11.96% Large Cap	21.83% Large Cap	0.01% Fixed Income Investment Grade	22.01% Developed Int'l Equities	18.31% Emerging Market Equities	12.25% 70% ACWI, 30% AGG	-12.46% Treasury Bonds	17.06% 70% ACWI, 30% AGG	11.54% Small Cap	17.88% Large Cap	9.20% 70% ACWI, 30% AGG
11.19% Emerging Market Equities	17.50% 70% ACWI, 30% AGG	-1.90% 40% S&P500, 10% EFA, 50% AGG	21.21% 70% ACWI, 30% AGG	14.28% 70% ACWI, 30% AGG	11.26% Developed Int'l Equities	-13.01% Fixed Income Investment Grade	16.93% Small Cap	10.58% 40% S&P500, 10% EFA, 50% AGG	17.73% 70% ACWI, 30% AGG	8.24% Developed Int'l Equities
7.38% 40% S&P500, 10% EFA, 50% AGG	14.65% Small Cap	-2.26% High Yield	19.89% 40% S&P500, 10% EFA, 50% AGG	12.63% 40% S&P500, 10% EFA, 50% AGG	11.17% 40% S&P500, 10% EFA, 50% AGG	-14.45% Developed Int'l Equities	14.84% 40% S&P500, 10% EFA, 50% AGG	8.20% High Yield	13.87% 40% S&P500, 10% EFA, 50% AGG	7.81% Emerging Market Equities
6.42% 70% ACWI, 30% AGG	12.37% 40% S&P500, 10% EFA, 50% AGG	-4.38% Large Cap	18.42% Emerging Market Equities	8.00% Treasury Bonds	5.36% High Yield	-14.89% 40% S&P500, 10% EFA, 50% AGG	13.46% High Yield	7.50% Emerging Market Equities	12.81% Small Cap	7.72% 40% S&P500, 10% EFA, 50% AGG
2.65% Fixed Income Investment Grade	7.48% High Yield	-6.48% 70% ACWI, 30% AGG	14.41% High Yield	7.82% Developed Int'l Equities	0.04% Cash	-16.59% 70% ACWI, 30% AGG	9.83% Emerging Market Equities	5.32% Cash	8.51% High Yield	5.42% High Yield
1.04% Treasury Bonds	3.54% Fixed Income Investment Grade	-11.01% Small Cap	8.72% Fixed Income Investment Grade	7.51% Fixed Income Investment Grade	-1.54% Fixed Income Investment Grade	-18.11% Large Cap	5.53% Fixed Income Investment Grade	3.82% Developed Int'l Equities	7.30% Fixed Income Investment Grade	2.03% Cash
1.00% Developed Int'l Equities	2.31% Treasury Bonds	-13.79% Developed Int'l Equities	6.86% Treasury Bonds	6.17% High Yield	-2.32% Treasury Bonds	-20.09% Emerging Market Equities	5.14% Cash	1.25% Fixed Income Investment Grade	6.32% Treasury Bonds	1.95% Fixed Income Investment Grade
0.26% Cash	0.82% Cash	-14.57% Emerging Market Equities	2.21% Cash	0.54% Cash	-2.54% Emerging Market Equities	-20.44% Small Cap	4.05% Treasury Bonds	0.58% Treasury Bonds	4.29% Cash	1.27% Treasury Bonds

For table key and important disclosures, please see the end of this publication. Past performance is not indicative of future results. Performance shown is for educational purposes only and is not an indication of any RiverFront product or client account performance. Indices are unmanaged, do not reflect fees or trading expenses and one cannot invest directly in an index.

**Conclusion:**

Asset allocation remains the primary driver of portfolio returns forty years later, because each asset class (stocks, bonds, and cash) inherently has characteristics that set both a floor and ceiling for returns based on their perceived risk level. By

creating an asset allocation, investors get an investment mix that captures the bulk of the overall return before security selection is considered due to the asset level return profile.

As previously stated, no asset class wins every year – and that's exactly why diversification works. Because performance leadership rotates unpredictably across asset classes year-to-year, a well-diversified portfolio captures broad market returns, reduces volatility, and enables the power of compounding. Trying to pick winners annually is a losing game, in our view; owning the right mix consistently is not.

Asset allocation should be dynamic, not static. RiverFront's dual approach – combining long-term strategic allocation (7-year horizon) with short-term tactical adjustment (3–6 months) – is designed to keep investors in the market through turbulent periods. The biggest risk is not a bad year; it is abandoning a sound strategy at exactly the wrong moment and locking in losses that derail a long-term financial plan.

At RiverFront, we partner with financial advisors that determine the client's investment objectives and risk tolerances, and we use our asset allocation process across our portfolios to help reach those objectives. We believe asset allocation should be dynamic, combining strategic and tactical to adjust for the different market environments.

*Risk Discussion: All investments in securities, including the strategies discussed above, include a risk of loss of principal (invested amount) and any profits that have not been realized. Markets fluctuate substantially over time, and have experienced increased volatility in recent years due to global and domestic economic events. Performance of any investment is not guaranteed. In a rising interest rate environment, the value of fixed-income securities generally declines. Diversification does not guarantee a profit or protect against a loss. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability. Please see the end of this publication for more disclosures.*

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*The comments above refer generally to financial markets and not RiverFront portfolios or any related performance. Opinions expressed are current as of the date shown and are subject to change. Past performance is not indicative of future results and diversification does not ensure a profit or protect against loss. All investments carry some level of risk, including loss of principal. An investment cannot be made directly in an index.*

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*All charts shown for illustrative purposes only. Technical analysis is based on the study of historical price movements and past trend patterns. There are no assurances that movements or trends can or will be duplicated in the future.*

*Stocks represent partial ownership of a corporation. If the corporation does well, its value increases, and investors share in the appreciation. However, if it goes bankrupt, or performs poorly, investors can lose their entire initial investment (i.e., the stock price can go to zero). Bonds represent a loan made by an investor to a corporation or government. As such, the investor gets a guaranteed interest rate for a specific period of time and expects to get their original investment back at the end of that time period, along with the interest earned. Investment risk is repayment of the principal (amount invested). In the event of a bankruptcy or other corporate disruption, bonds are senior to stocks. Investors should be aware of these differences prior to investing.*

*In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa). This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.*

*Investing in foreign companies poses additional risks since political and economic events unique to a country or region may affect those markets and their issuers. In addition to such general international risks, the portfolio may also be exposed to currency fluctuation risks and emerging markets risks as described further below.*

*Changes in the value of foreign currencies compared to the U.S. dollar may affect (positively or negatively) the value of the portfolio's investments. Such currency movements may occur separately from, and/or in response to, events that do not otherwise affect the value of the security in the issuer's home country. Also, the value of the portfolio may be influenced by currency exchange control regulations. The currencies of emerging market countries may experience significant declines against the U.S. dollar, and devaluation may occur subsequent to investments in these currencies by the portfolio.*

*Foreign investments, especially investments in emerging markets, can be riskier and more volatile than investments in the U.S. and are considered speculative and subject to heightened risks in addition to the general risks of investing in non-U.S. securities. Also, inflation and rapid fluctuations in inflation rates have had, and may continue to have, negative effects on the economies and securities markets of certain emerging market countries.*

*High yield bonds are debt securities often referred to as "high-yield" or "junk" bonds issued by corporations. High-yield bonds tend to pay higher interest rates because they have lower credit ratings than investment-grade bonds. High-yield securities (including junk bonds) are subject to greater risk of loss of principal and interest, including default risk, than higher-rated securities.*

*In a rising interest rate environment, the value of fixed-income securities generally declines.*

*Index Definitions:*

*Standard & Poor's (S&P) 500 Index measures the performance of 500 large cap stocks, which together represent about 80% of the total US equities market.*

*MSCI ACWI Index is designed to represent performance of the full opportunity set of large- and mid-cap stocks across approximately 23 developed and approximately 25 emerging markets.*

*Global equities are equities that span across both developed countries and emerging markets. Investments in international and emerging markets securities include exposure to risks such as currency fluctuations, foreign taxes and regulations, and the potential for illiquid markets and political instability.*

*Developed Int'l Equities is represented by the MSCI EAFE Index (NET) (Europe, Australasia, Far East), a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The Index consists of indices from approximately 21 developed markets. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

*Emerging Market Equities is represented by the MSCI Emerging Markets Index (NET), a free-float adjusted market capitalization index that is designed to measure the equity market performance of emerging markets. The index consists of indices from approximately 25 emerging market country indices. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

*Fixed Income Inv. Grade is represented by Bloomberg US Aggregate Bond Index, an unmanaged index that covers the investment grade fixed rate bond market with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. The issues must be rated investment grade, be publicly traded, and meet certain maturity and issue size requirements.*

*Treasury Bonds is represented by the Bloomberg US Treasury Index which measures the performance of the US Treasury bond market.*

*High Yield is represented by the ICE BofA US High Yield-Master II Index which tracks the performance of below investment grade US dollar-denominated corporate bonds publicly issued in the US domestic market.*

*Cash is represented by the Bloomberg 1-3 Month US Treasury Bill Index which includes all publicly issued zero-coupon US Treasury Bills with a remaining maturity between 1 and 3 months, are rated investment-grade, and have an outstanding face value of \$250 million or more.*

*Large Cap is represented by the S&P 500 Index which measures the performance of 500 Large Cap stocks, which together represent about 80% of the total US equities market.*

## STRATEGIC VIEW

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*SMID Cap is represented by the S&P 1000 which combines two leading indices, the S&P Mid Cap 400 and the S&P Small Cap 600, to form an investable benchmark for the Mid-Small Cap universe of the US equity market. S&P 1000 measures the performance of widely available and highly liquid stocks.*

### *Definitions:*

*Diversification is the strategy of investing in different asset classes and asset types to reduce portfolio risk associated with price volatility.*

*Discounted cash flow (DCF) refers to a valuation method that estimates the value of an investment using its expected future cash flows. DCF analysis attempts to determine the value of an investment today, based on projections of how much money that investment will generate in the future.*

*When referring to being "overweight" or "underweight" relative to a market or asset class, RiverFront is referring to our current portfolios' weightings compared to the composite benchmarks for each portfolio.*

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