Mesirow

Which asset classes are most beneficial in a portfolio?

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Executive Summary

This paper examines how different asset classes contribute to more efficient, diversified portfolios using mean variance optimization (MVO). The study evaluates portfolios across Conservative, Moderate, and Aggressive risk levels by progressively expanding the asset set.

Key findings include:

- **Equities |** Adding size and style diversification dramatically improves potential portfolio outcomes. While international options do improve diversification, the allocations are below market weights in the global market.

- **Fixed Income |** Bonds provide diversification and stability benefits, with high yield bonds, as a hybrid between equity and fixed income, displaying meaningful allocations in the mid-level risk portfolios.

- **Supplemental |** Non-core assets like REITs, emerging market bonds, TIPS and commodities play an important role in expanding the efficient frontier opportunity set, with the latter assets providing key hedging characteristics during inflationary environments.

Overall, the analysis confirms that diversification across asset classes produces better and more stable portfolio outcomes. Mesirow's Core Asset Class framework offers a strong foundation, while carefully selected supplemental assets can further improve risk-return efficiency.

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