



Benchmarking equity exposure within multi-asset portfolios

Setting a strategic asset allocation, and benchmarks to represent it, is key in driving multi-asset portfolio outcomes. The choice of benchmark plays a central role in shaping portfolio exposures, setting client expectations, and assessing performance outcomes over the long term.

At T. Rowe Price, we typically use market-capitalisation global equity measures such as the MSCI All Country World Index (ACWI) as the reference point for equity exposure within multi-asset portfolios for UK clients. This provides a broad opportunity set, a widely used benchmark, and a clear, easily understood performance measure.

No single benchmark can be perfect for all clients. We discuss how this approach can be adapted to reflect particular circumstances and concerns.

Why take a global approach?

Both investment theory and common sense support the use of a broad, well-diversified starting point for benchmarking equity portfolios—something which can be seen as a simple “opportunity cost” for an equity investment. A global, market-cap benchmark can be the neutral position for an investor without a specific regional view.

We use the ACWI as a proxy for this. It is designed to represent the performance of equity markets worldwide and includes 2,515 stocks from 23 developed markets and 24 emerging markets¹.

For context, Table 1 includes historical returns and volatility outcomes for a sterling investor in a number of MSCI equity indices.



Michael Walsh
Portfolio Manager



Matt Bance
Portfolio Manager



Christopher Saloway
Investment Analyst

Table 1 – Returns in GBP to various regional MSCI indices, January 1988 to December 2025

	MSCI ACWI	MSCI USA	MSCI UK	MSCI Japan	MSCI Emerging Markets
Return p.a.	9.3%	11.8%	7.8%	3.5%	10.4%
Volatility p.a.	14.4%	15.7%	13.7%	18.3%	21.7%
Return/Risk	0.64	0.75	0.57	0.19	0.48

Past performance is not a guarantee or a reliable indicator of future results. Sources: Analysis by T. Rowe Price, MSCI.

¹Source: MSCI ACWI index factsheet, 30 January 2026. Please see Additional Disclosures page for information about this MSCI information.

The ACWI exposure has seen a strong risk-adjusted return over the long term, with lower volatility than all but one of the regions, the UK. Leadership has rotated over time. Both the UK and emerging markets have seen a large number of 10-year periods where each delivered the strongest returns—periods which are difficult to identify in advance.

The exposures within ACWI naturally adjust to changes in composition over time in a way that is can be difficult for more fixed approaches. For instance, exposure to emerging markets automatically increases as markets move from frontier to emerging markets. Countries’ relative weights change over time, either growing, as in China, or shrinking, as in Japan and the UK. Sector weights align with current trends, including the rise of the U.S. technology sector. This keeps the benchmark representative of prevailing market dynamics.

As a neutral reference point for global equities, ACWI is a defensible and commonly understood benchmark. From a practical perspective, it is widely used by equity managers; an important consideration when deciding how to obtain underlying strategy exposure within the portfolio.

Key challenges to adopting a global benchmark

Increased concentration has become a major challenge to market cap benchmarks in recent years. Concerns have been especially acute about the dominance of large US technology firms within global indices, at both the sector and individual stock levels.

Three factors have caused investors outside the US to question their comfort with this level of concentration:

- Whether the artificial intelligence theme, a key driver of recent US equity performance, will be sustained
- Increased trade tensions and geopolitical uncertainty between the US and other key economic blocs
- The amount of US dollar exposure which is desirable if the dollar continues its recent weakness.

These concerns are not unique to ACWI. Market cap weighted indices automatically allocate more capital to stocks, sectors, or countries as their prices rise. As valuations expand, the index becomes increasingly concentrated in the most expensive segments of the market, embedding momentum-driven risk. When sentiment reverses and prices correct, investors may face disproportionately large drawdowns precisely in the areas that had become most heavily weighted.

As of January 31, 2026, US names represented about 63% of ACWI, and the top eight names were all US stocks. Such concentration is not unique to the US Other regions, such as the UK and emerging markets, also appear top-heavy on this measure.

Table 2 – Combined weight of the top five stocks in various regional MSCI indices, as of end January 2026

Index	Top five Combined Weight (%)
MSCI ACWI	18.2
MSCI USA	28.9
MSCI UK	34.5
MSCI Japan	17.7
MSCI Europe ex UK	14.9
MSCI Emerging Markets	28.1

Sources: Analysis by T. Rowe Price, MSCI, Bloomberg L.P. Weights for MSCI USA include both lines of Alphabet stock. Please see Additional Disclosures page for information about this MSCI information.

Such concerns are important to recognise without losing sight of the principle of portfolio benchmarks reflecting the available opportunity set.

Adapting the benchmark to specific considerations

A range of options are available to tailor a portfolio's equity benchmark. We review 5 of these below. Each brings benefits and trade-offs in terms of embedding particular views or assumptions within a portfolio's asset allocation.

1. Managing concentration risk through limiting US equity allocations

One broad approach to limiting concentration risk is to mechanically reduce exposure to U.S. stocks, either by increasing exposure to all other regions, or by increasing holdings in other areas more selectively. The preference of some clients for a "home bias" to UK stocks is an example of this, although such a stance often reflects other considerations, such as familiarity bias, as well.

In Table 3, the historical performance analysis for three portfolios illustrates the impact of this approach:

- MSCI ACWI
- Global equities with US exposure capped at one third (33.3% MSCI USA and 66.7% MSCI ACWI ex USA)
- Global equities with a UK home bias (25% MSCI UK and 75% MSCI ACWI ex UK).

Table 3 – Summary statistics in GBP for combinations of various regional MSCI indices, January 1988 to December 2025

	MSCI ACWI	1/3 MSCI US, 2/3 ACWI ex USA	1/4 MSCI UK, 3/4 ACWI ex UK
Return p.a.	9.3%	8.9%	8.9%
Volatility p.a.	14.4%	14.3%	13.9%
Return/Risk	0.64	0.62	0.64
Tracking Error vs. ACWI p.a.	n/a	1.50%	1.61%

Past performance is not a guarantee or a reliable indicator of future results. Sources: Analysis by T. Rowe Price, MSCI. Please see Additional Disclosures Page for information about this MSCI information.

The effects of either variation to the portfolio would have been relatively limited over the long term across each of the return, volatility and risk measures. Note that the US has historically made up a smaller portion of the ACWI index; at the end of 2010, for instance, the exposure to US companies made up about 42% of the total.

2. Optimising strategic allocations based on capital market assumptions

A commonly used approach to setting bespoke benchmarks is to tilt towards areas of the equity market that appear more attractive on a longer-term view. These tilts would be expected to add return or reduce risk relative to a pure market capitalisation-based implementation.

In the example below, we apply our latest 5-year Capital Market Assumptions

(CMAs) in sterling to set global equity positioning, allowing for a modest level of active risk (tracking error) around ACWI.

We show the optimised regional weights for two portfolios:

- The optimiser can take 1% tracking error versus the ACWI
- The weights for each region can vary between 50% and 150% of the region's ACWI weight.

Exhibit 2 – Optimised active regional weights for global equity exposure, allowing 1% tracking error relative to the ACWI

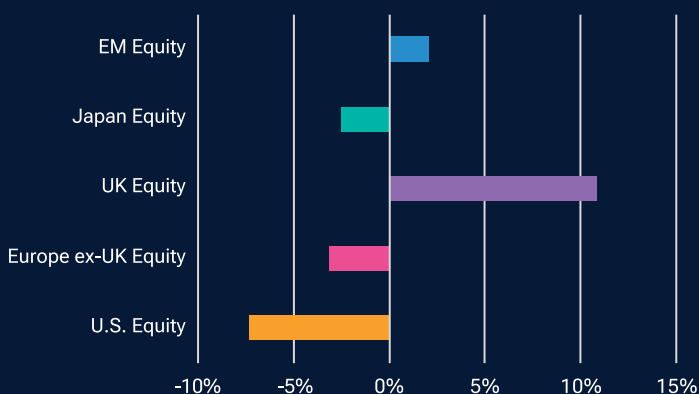
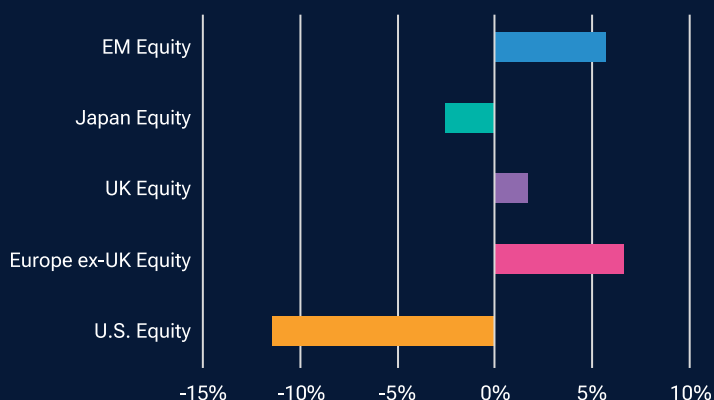


Exhibit 3 – Optimised active regional weights for global equity exposure, allowing regional weights to vary between 50% and 150% of the region's weight in ACWI



This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Source: Analysis by T. Rowe Price. CMAs as of 30 November 2025. Exposure to the Pacific ex Japan region is held at index weight.

Over a five-year horizon, we believe returns to US equities to be attractive, at 6.4% p.a., but to lag those of other regions, such as emerging markets. The optimisation results reflect this: in both examples, allocations to emerging markets and the UK increase primarily at the expense of U.S. equities. If we use the CMAs to optimise without any anchoring or risk controls, the resulting solution would allocate almost entirely to these regions, as these dominate on expected return alone.

The caveat is that the optimisations are based on CMAs that rely heavily on

current valuations. Because the U.S. equity market is more expensive than other markets, its relative expected returns are lower. However, an expensive market could become even more expensive than its less expensive peers (rather than lag), particularly over a handful of years.

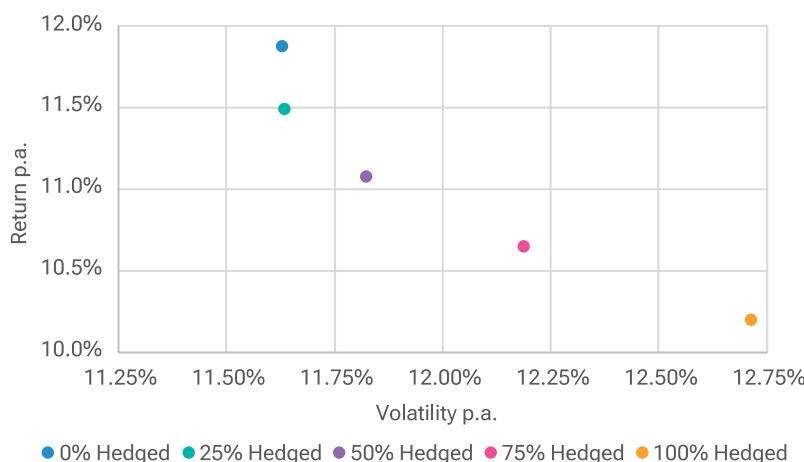
3. Reducing US dollar exposure within a global equity portfolio

A more specific concern for some clients might be the large amount of (often unintended) U.S. dollar exposure within a market-cap weighted global equity

portfolio. Long-term currency hedging impacts expected returns due to interest rate differentials across currencies. Partially hedging currency exposure can potentially reduce volatility from equity holdings.

Historically, hedging overseas developed currency exposure would have reduced returns for a sterling investor, as the pound has tended to depreciate. However, outcomes have varied considerably in different periods. Counterintuitively, hedging the currency exposure would have increased the volatility, resulting in a lower return/risk ratio.

Exhibit 4 – Historical return versus volatility p.a. for ACWI on a currency hedged and unhedged basis, January 2010 to December 2025



Past performance is not a guarantee or a reliable indicator of future results. Sources: Analysis by T. Rowe Price, MSCI. Returns used are MSCI ACWI in GBP blended with MSCI ACWI with Developed Market Currency Hedged in GBP. Please see Additional Disclosures page for information about this MSCI information.

Hedging overseas currency exposure would have boosted returns considerably for sterling investors in the period between the technology bubble and the global financial crisis, for instance, as the pound appreciated strongly.

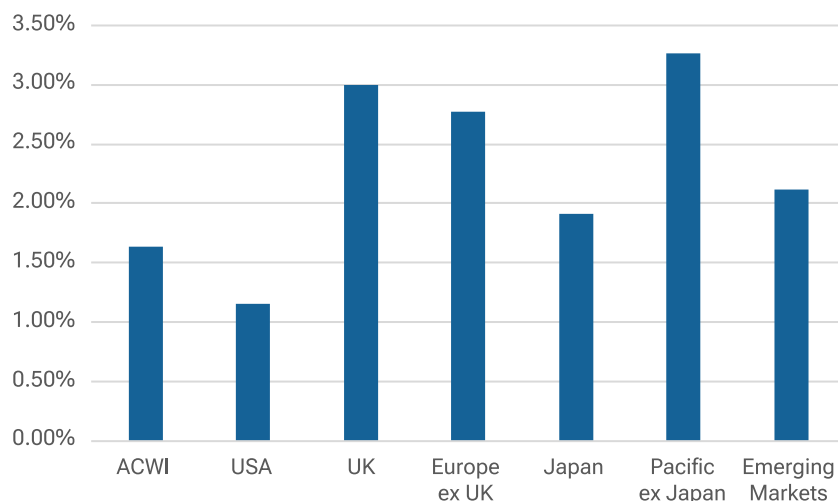
In the context of a wider multi-asset portfolio, understanding the currency exposures and the hedging approach

within other areas of the portfolio is crucial. Often, overseas currency exposure within fixed income allocations is hedged back to sterling, for instance. So, is important to monitor and adjust the impact of currency exposures at the multi-asset portfolio level for strategic and tactical asset allocation purposes.

4. Portfolios with income requirements

In many cases, clients plan to use the natural income generated by their investments to meet immediate spending needs. Because US stocks offer a relatively unattractive overall dividend yield, which withholding tax can further mitigate, portfolios with an explicit yield objective tend to have larger allocations to other markets, such as the UK and developed markets in the Pacific region.

Exhibit 5 – 12-month historical dividend yield on various regional MSCI indices, as of end January 2026



Source: MSCI ACWI index factsheets, 30 January 2026. Please see Additional Disclosures page for information about this MSCI information.

For example, the MSCI ACWI High Dividend Index had an allocation of about 49% to the US at the end of January 2026, around 14% lower than that in the more widely used ACWI.

5. Including active management to help mitigate risk

One way to manage concentration risk is to make greater use of active management, at both the asset allocation and security selection levels. For instance, a multi-asset portfolio may be given the freedom to take tactical decisions within global equities, but with a constraint on the ability to add exposure to US large cap growth stocks. Alternatively, an active approach to managing underlying US or global equities

may result in the manager taking a more selective approach to the largest names within the benchmark.

Summary

Global market indices such as ACWI have historically been used as the benchmark for the equity portion of multi-asset portfolios. This approach offers diversification, simplicity and practicality as a starting point for portfolio construction.

However, recent developments in markets mean clients are often seek alternative approaches to better suit their beliefs and unique circumstances. A range of approaches are at their disposal, including

embedding more short- or long-term active views in the portfolio construction process, mechanistically increasing allocations to smaller markets or regions, or separating currency exposures from asset allocation decisions via currency hedging.

T. Rowe Price offers a flexible approach to developing solutions for client portfolios, with a wide range of regional and global building blocks. Our solutions team can consult with clients to understand their individual needs and construct portfolios that align with their requirements and beliefs amid a volatile market environment.

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

Additional Disclosures

Source for MSCI data: MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

"Bloomberg®" and the Bloomberg Indices are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited ("BISL"), the administrator of the index (collectively, "Bloomberg") and have been licensed for use for certain purposes by T. Rowe Price. Bloomberg is not affiliated with T. Rowe Price, and Bloomberg does not approve, endorse, review, or recommend this Product. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to this product.

Important Information

This material is being furnished for general informational and/or marketing purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a guarantee or a reliable indicator of future results.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

UK - This material is issued and approved by T. Rowe Price International Ltd, Warwick Court, 5 Paternoster Square, London EC4M 7DX which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

© 2026 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, the Bighorn Sheep design and related indicators (see troweprice.com/ip) are trademarks of T. Rowe Price Group, Inc. All other trademarks shown are the property of their respective owners. Use does not imply endorsement, sponsorship, or affiliation of T. Rowe Price with any of the trademark owners.