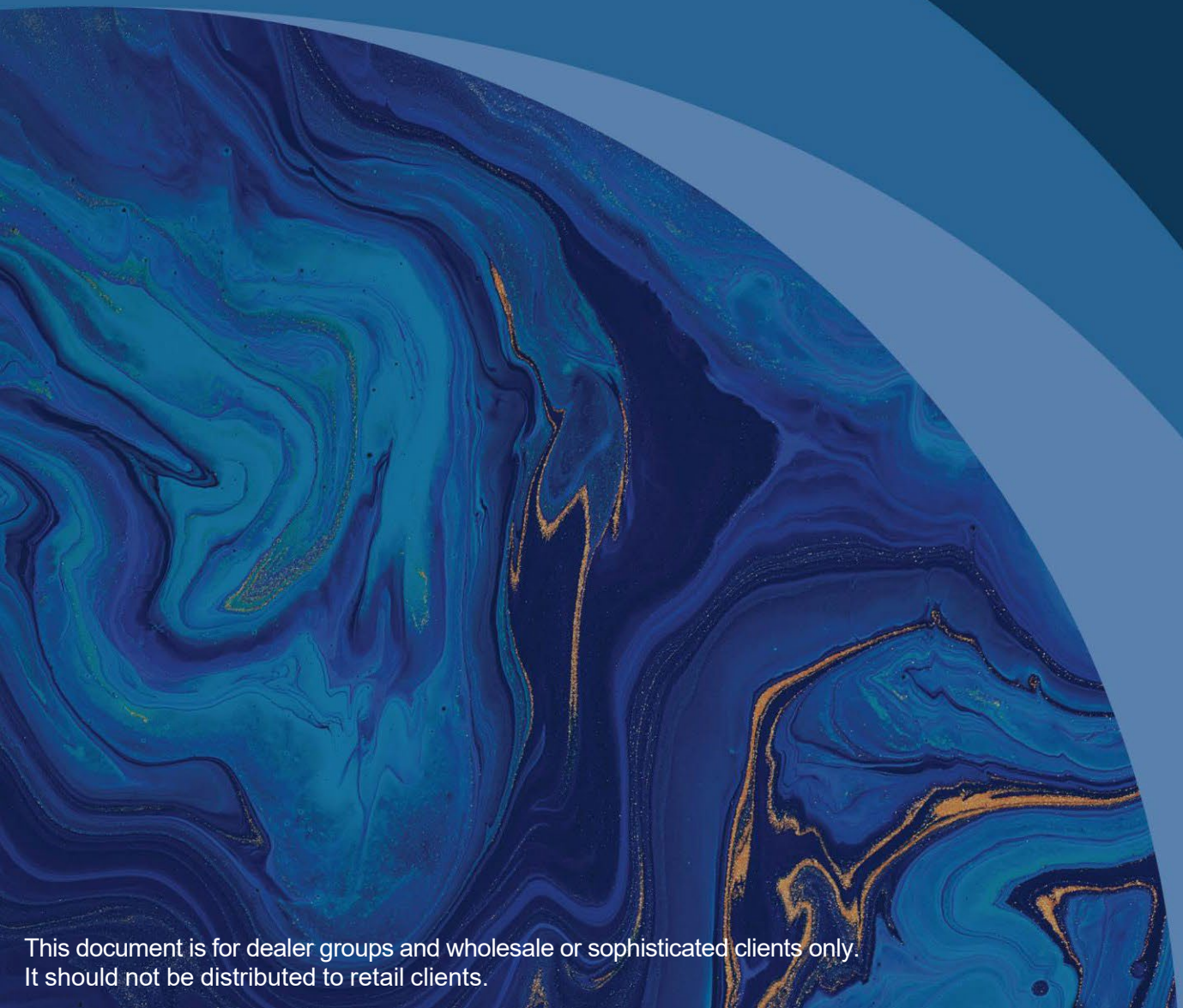
MASON STEVENS

Mason Stevens OCIO

Dynamic Asset Allocation 2025



This document is for dealer groups and wholesale or sophisticated clients only.
It should not be distributed to retail clients.

Dynamic Asset Allocation - Overview

What is Dynamic Asset Allocation (DAA)?

DAA is an investment strategy that involves adjusting the allocation of assets in a portfolio based on changing market conditions, economic indicators, or other relevant factors. Unlike Strategic Asset Allocation (SAA), which involves setting a fixed mix of asset classes and maintaining it over time, DAA allows for flexibility and adaptability.

The goal of DAA is to enhance returns and manage risk by responding to shifts in market conditions. Investors employing this strategy may adjust the allocation of assets such as stocks, bonds, cash, and other investments based on their expectations of future market performance.

Why is DAA important?

SAA aims to construct portfolios that are positioned to meet investment objectives over the long term (5-10 years).

DAA is important because by effectively managing shorter term risks and capturing shorter term investment opportunities, investors may improve the likelihood of meeting their investment objectives and generate better absolute and risk-adjusted performance over time.

Our Investment Philosophy and approach to DAA

At the heart of our investment philosophy lies a commitment to disciplined, evidence-based decision making, and thoughtful diversification. We embrace a Wisdom of Crowds approach to portfolio construction, meaning we gather long term capital market forecasts from a network of experts, recognising that no single expert, organisation or methodology can reliably predict the future with precision. By doing so, we aim to reduce the risk of forecast error and inform a resilient and well-structured investment strategy.

In the short-to-medium term, we believe in active management - providing it is anchored in rigorous, high-quality research and analysis. Our approach is shaped by the belief that there are two primary drivers of market behaviour, namely: the direction of economic growth and inflation, and their interaction. We use a probabilistic approach to identify the prevailing regime(s); one that combines the strengths of quantitative models and qualitative judgement, and, in turn, identify tactical investment opportunities within and across asset classes, with the goal of enhancing long-term, risk-adjusted returns.

Finally, while we accept there is a need for standardised investment benchmarks, we reject the notion that those benchmarks represent the optimal portfolio for every client - or that we alone hold all the best investment ideas. Innovation and open-mindedness are embedded in our DNA, and we actively seek out new perspectives and work closely with our business partners to challenge assumptions, refine strategies, and tailor solutions. Our goal is to ensure that each end client receives a best practice investment experience – one that aligns with their unique needs, goals and circumstances.

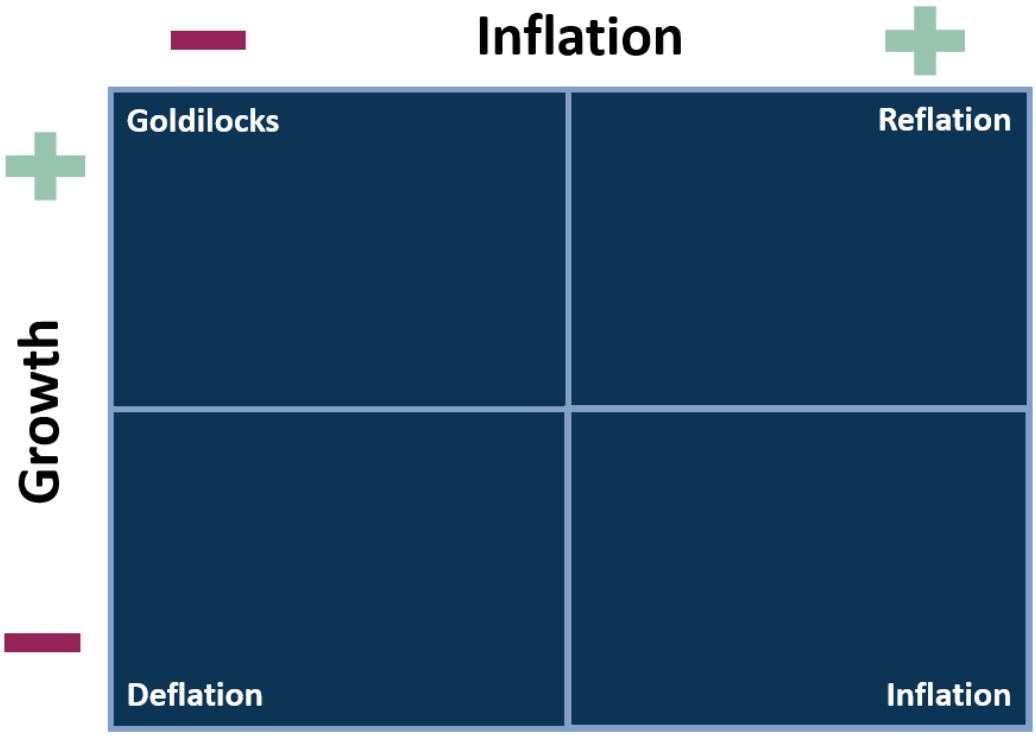
Our approach to Dynamic Asset Allocation (DAA) is predicated on the belief that market cycles are primarily driven by two things: the direction of economic growth and inflation. The combination of the two is a market regime which has historically conferred a risk-reward advantage to some sectors, themes and styles and a disadvantage to others. Through Dynamic Asset Allocation (DAA), we seek to capitalise on these regime-driven asymmetries with the goal of enhancing long-term, risk-adjusted returns.

To do this, we rely on probabilistic assessments of market regimes which we generate through a combination of proprietary internal and externally sourced quantitative models, alongside qualitative expertise and judgement. These probabilities inform not only the amount of risk we are willing to take but also the specific tilts we are interested in taking; be it at an asset class or factor level. The probabilistic framework also ensures that no one regime or bias unjustifiably dominates our active risk taking. Consideration is always given to the 'what if we are wrong?' scenario(s), ensuring we allocate capital in a measured way that gives us the best chance of generating strong risk-adjusted returns over the long term.

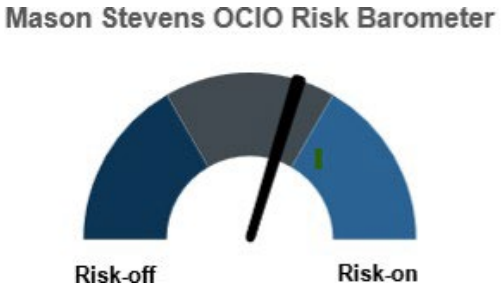
We also consider a range of other indicators to identify active opportunities, improve market timing and manage risk. These indicators include but are not limited to proprietary measures of momentum, investor, business and market sentiment and valuations, based on rigorous quantitative analysis. In addition, we consume various research reports from reputable asset managers, sell-side analysts and research houses, which we augment with our own fundamental research.

Our DAA framework is further enhanced using market-leading portfolio analytics software: Jacobi Analytics. This technology provides a full look-through of portfolio holdings and a detailed breakdown of the factors influencing risk and return, helping us identify and mitigate hidden concentrations of risk. It also safeguards against common portfolio construction pitfalls such as under or over-diversification. We also employ scenario analysis which can be customised based on the prevailing economic and market environment or to test left or right tail risk theories.

These capabilities and processes are central to our mission of delivering superior long-term, risk-adjusted returns. Above all, we approach each day with curiosity, humility, and a commitment to continuous improvement—ensuring every client benefits from a best-practice investment experience.



In terms of our approach to portfolio management, DAA positions are generally held for several months to several years, depending on the underlying research findings and market developments. At any given time, the sum of our DAA beliefs is summarised by the Mason Stevens OCIO Risk Barometer, illustrated below, for communication and transparency purposes. This also informs our approach to risk budgeting which is discussed below.



It should also be noted that any quantitative models we employ is required to undergo rigorous back testing, peer review, and Investment Committee approval before integration into our DAA process. Importantly, we adhere to a 'no black box' philosophy, ensuring that all models we develop are transparent, easily interpretable, and can be clearly explained in an Investment Committee setting. Currently, all such models are implemented subjectively, that is: the Mason Steven's Investment team has final discretion over their use as part of an investment decision (as opposed to a fully systematised process where the model transacts automatically without any human intervention).

Sleeve-based DAA

We approach Dynamic Asset Allocation (DAA) from a total portfolio perspective, guided by four distinct market regimes. Using a combination of rigorous quantitative models and qualitative insights, we assess the probability of each regime prevailing. Based on these assessments, we identify the most compelling active investment opportunities, drawing from four dedicated sleeves—each tailored to represent one of the four regimes and aligned with their respective probabilities. This modular framework lets us assess portfolio risks and opportunities dynamically and with a forward-looking lens, moving beyond the constraints of traditional asset-class-centric approaches and avoiding hidden overlaps.

The following table provides a high-level summary of the four sleeves and the asset classes they typically refer to:

Sleeve	Economic role	Typical instruments
Return-seeking/Growth	Capture equity and credit risk premia in risk-on or disinflationary-growth regimes	Broad equity and factors, high-yield credit
Risk-reducing/Defensive	Preserve capital and provide ballast in recession or deflation regimes	Sovereign bonds, investment-grade credit, short-duration floating-rate notes, alternatives and cash
Inflation-protection/Real Return	Safeguard purchasing power when inflation surprises on the upside	Listed infrastructure, broad commodities, and real assets
Diversifiers & Shock Absorbers	Deliver convex payoff when macro scenarios break from consensus	Defensive and deeply discounted equity themes and sectors, and growth and defensive alternatives

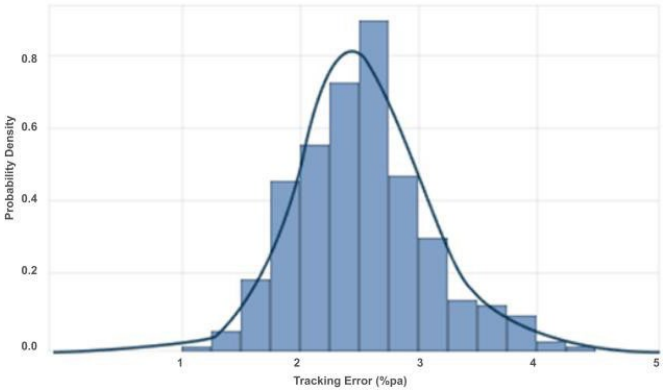
At a more granular level, decisions at an individual sleeve level can be framed as follows:

- **Growth sleeve** – the equity/beta share expands when “growth-up / inflation-stable” probability exceeds 60 %; credit share expands when the “growth-up / inflation-falling” probability rises.
- **Defensive sleeve** – shifts from duration (sovereigns) to cash & floaters as “inflation-up” risk climbs.
- **Inflation-Protection sleeve** is funded when both growth and inflation odds rise (stagflation case), drawing equally from Growth and Defensive sleeves to keep overall risk on target.
- **Diversifier sleeve** is designed to either balance the abovementioned tilts or react to market conditions opportunistically.

A key strength of this sleeve architecture is that each sleeve has a clearly defined and easily articulated role—whether it's return generation, capital defence, purchasing power preservation, or shock absorption. This clarity makes the connection between DAA insights and portfolio implementation both intuitive and actionable. By integrating data-driven regime signals with this purpose-built structure, the portfolio remains dynamic—able to adjust as regime probabilities evolve—while also maintaining robustness, as each component is engineered to fulfil its economic function across a diverse and evolving set of market conditions.

Risk budgeting

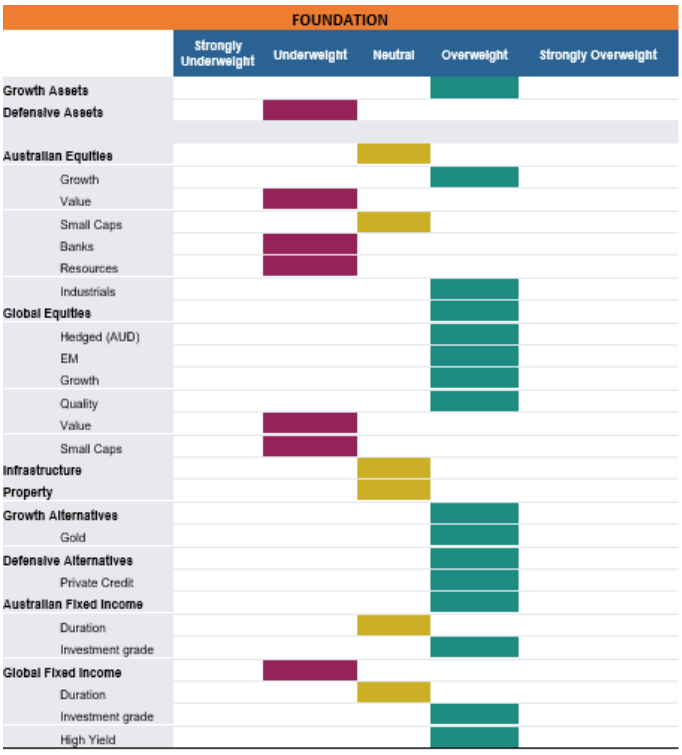
When it comes to risk budgeting, although there are no hard risk limits, we follow a maximum Tracking Error (TE) target for each Mason Stevens model portfolio. We utilise an external portfolio management system, Jacobi, to measure TE, which provides extensive what-if functionality to evaluate any potential portfolio adjustments. Additionally, we perform our own periodic analysis of TE resulting from significant deviations from the major asset classes' neutral SAA weights. For instance, the following chart illustrates the probability density function for a Balanced portfolio when adjusting major asset class weights by +/-10% from a neutral position. Naturally, riskier assets like equities populate the right side of the distribution and we find this analysis helps us to gauge the likely TE impacts of any portfolio changes.

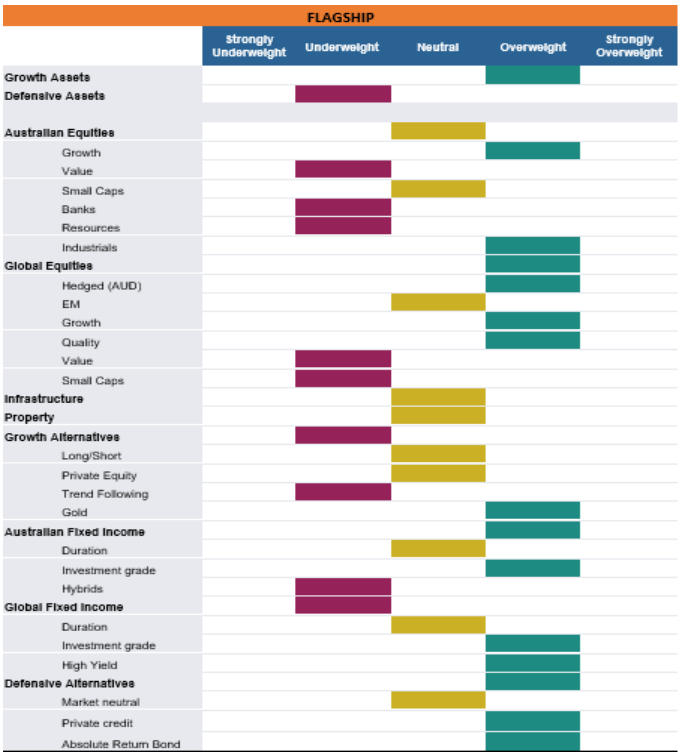


DAA Implementation

Before any Dynamic Asset Allocation (DAA) positions are implemented or amended, the Investment Team, which includes the Chief Investment Officer (CIO), Head of Asset Allocation, Head of Fixed Income, and Head of Manager Research, convene to discuss any DAA position changes. These meetings take place on both an ad hoc and recurring basis, with the primary recurring meetings being the weekly Portfolio Review meeting and the formal monthly Investment Committee meeting. During these meetings, the team discuss and analyse macroeconomic and market conditions, and any portfolio recommendations. Similar discussions also occur on an ad hoc basis, often triggered by presentations to external Investment Committees where Mason Stevens provides an update on current market conditions and portfolio recommendations.

The following table is an example of how we monitor and communicate DAA positions and recommendations.





Important Information:
This document is owned by Mason Stevens Asset Management Pty Limited (ABN 92 141 447 654 (MSAM). MSAM is a corporate authorised representative (CAR 461312) of Mason Stevens Limited, ABN 91 141 447 207, AFSL 351578 (Mason Stevens). This document is for dealer groups and wholesale or sophisticated clients only. It should not be distributed to retail clients. The content provided in this document is of a general nature only and should not be construed as personal advice as it does not have regard to any individual's personal objectives, financial situation and needs. You should consider this information, along with all of your and your client's other investments and strategies when assessing the appropriateness of the information to your or your client's individual circumstances. Investment in securities including derivatives involves risks, as securities by nature rise and fall. Therefore, **past performance is not a reliable indicator of future performance.** MSAM and its associates and their respective directors and employees may hold interests in securities and/or earn fees or other benefits from transactions arising as a result of information contained in this document. Whilst every effort is made to ensure the information is accurate at the time of sending, MSAM does not warrant its accuracy, reliability or completeness nor does it undertake to correct any information subsequently found to be inaccurate. References made to any third party or their data is based on information that Mason Stevens believes to be true and accurate as at the date of this document but without independent verification. Opinions expressed and / or information may change without prior notice and MSAM is not obliged to update you if the information changes. The relevance of this document is designed to illustrate the range of products and services that MSAM offer, it may also provide information related to investment outcomes for a particular investment strategy. The document uses a broad number of simplifying assumptions to do this. As such this document should not be taken as an indication of any actual performance of any particular investment. Any investment return(s) and yield assumptions used in the document do not represent a prediction or forecast of actual performance of any product or service offered by MSAM.