Mason Stevens OCIO

Dynamic Asset Allocation

2025

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).

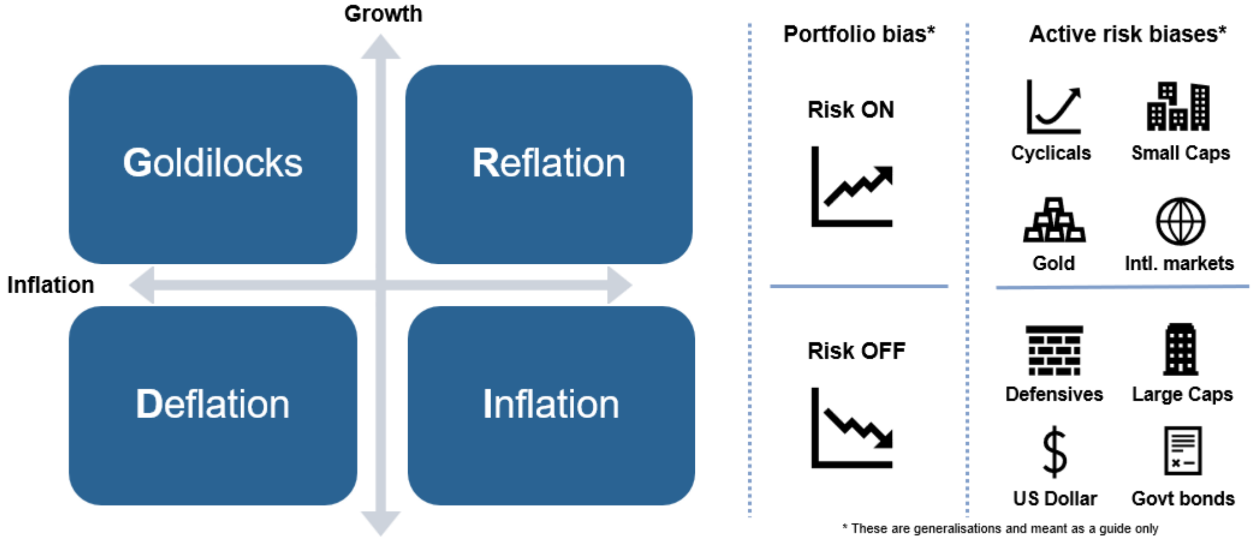
DAA is important because by effectively managing shorter term risks and capturing shorter term investment opportunities, investors may improve the likelihood of meeting their investment objectives and generate better absolute and risk-adjusted performance over time.

Our Investment Philosophy and approach to DAA

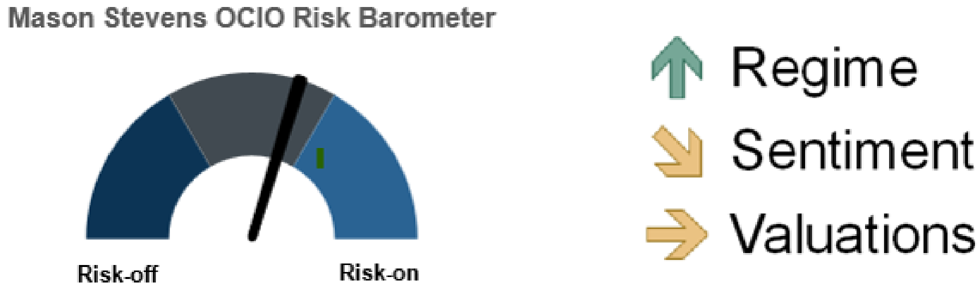
Our investment philosophy is based on the following principles:

- **Economic growth and inflation**: The combination of these two factors is the most significant driver of asset class returns over time.
- **Investor skill**: The ability to determine the current growth-inflation regime and anticipate how these dynamics are likely to evolve over the medium term is crucial.
- **Valuations, sentiment, and momentum**: By considering these factors, we can identify the asset classes, sectors, factors, and styles with the greatest return prospects, both in absolute and risk-adjusted terms.
- **Collaboration and research**: We recognize that we are not the sole source of good ideas or investment tools. Therefore, we consider a wide array of research and expert opinions as we navigate markets and portfolio changes.
- **Continuous improvement**: our research practices, quantitative models, and risk management approaches are continually reviewed and refined

With this in mind, our approach to Dynamic Asset Allocation (DAA) is straightforward: our goal is to enhance the returns of a neutral Strategic Asset Allocation (SAA) portfolio, both in absolute and risk-adjusted terms. We achieve this by employing a blend of qualitative and quantitative research tied to the ‘GRID’ framework (see graphic below), which represents Goldilocks, Reflation, Inflation, and Deflation. Each GRID classification corresponds to one of four quadrants within a growth-inflation matrix. Historically, these quadrants have demonstrated varying levels of returns (both absolute and relative) across different asset classes, countries, sectors, investment factors, and styles. Our DAA process aims to identify and capitalise on these return opportunities throughout economic and market cycles.



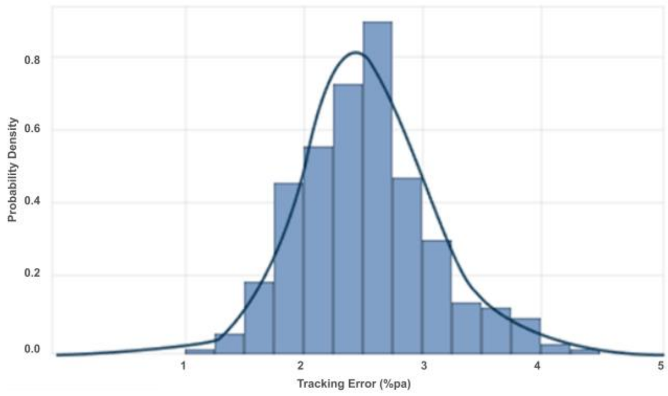
In terms of our approach to portfolio management, DAA positions are generally held for several months to several years, depending on the underlying research findings and market developments. At any given time, the sum of our DAA beliefs is summarised by the Mason Stevens OCIO Risk Barometer, illustrated 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).

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.

WITH ALTERNATIVES					
	Strongly Underweight	Underweight	Neutral	Overweight	Strongly Overweight
Growth Assets				■	
Defensive Assets		■			
Australian Equities		■			
Growth				■	
Value		■			
Small Caps				■	
Banks		■			
Resources		■			
Industrials				■	
International Equities				■	
Hedged (AUD)				■	
EM (ex-China)				■	
Growth				■	
Quality				■	
Value		■			
Small Caps				■	
Infrastructure		■			
Property				■	
Growth Alternatives			■		
Long/Short			■		
Private Equity				■	
Trend Following			■		
Gold				■	
Australian Fixed Income			■		
Duration			■		
Investment grade				■	
Hybrids		■			
International Fixed Income		■			
Duration		■			
Investment grade				■	
High Yield				■	
Defensive Alternatives			■		
Market neutral			■		
Private credit				■	
Absolute Return Bond		■			

Key
Underweight
Neutral
Overweight

Source: Mason Stevens OCIO