



# Mason Stevens OCIO

## Strategic Asset Allocation

### 2024

This document is for dealer groups and wholesale or sophisticated clients only.

# Strategic Asset Allocation

## Strategic Asset Allocation - Overview

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### What is Strategic Asset Allocation?

Strategic Asset Allocation (SAA) establishes an appropriate investment framework for an investor that best represents their investment goals, risk tolerance and investment horizon. An adviser will use various profiling tools that develop a clear and thorough understanding of the financial and behavioural elements of a client's risk profile. Once developed, the risk profile will be mapped into an appropriate SAA model.

### Why is SAA Important?

- » The SAA plays an important role in determining the long-term success or failure of a multi-asset investment portfolio versus objectives.
- » SAA has the most impact on the variation of portfolio performance over time.
- » SAA strategies seek to mitigate portfolio volatility by combining asset classes that are not highly correlated.

### Proposed Asset Classes and Benchmarks

**Asset Classes can be divided into three broad categories: (1) Equities, (2) Fixed income and (3) Alternatives.**

- » Equities are ownership interests in businesses and provide exposure to earnings growth and dividend income. Equities over time provide the key plank for portfolio returns. The addition of other asset classes to equities is designed to diversify equities risk.
- » Fixed income investments generate a return based on periodic payments with the return of the principle at maturity.
- » Alternatives can be listed or unlisted assets that provide both investment return and a high level of diversification of risk relative to equities. This broadly defined asset class includes hedge funds, commodities, and other non-correlated investments.

# Strategic Asset Allocation – Annual Review

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We run a review of the current strategic asset allocations (SAA) and associated inputs (return and risk forecasts) on an annual basis. This review will be conducted in the first quarter of each calendar year in line with when most providers update their forecasts.

The SAA portfolio construction process is run with the new inputs and comparisons are made with the current SAA portfolio structures. The results of this analysis are presented to the Investment Committee for consideration and decisioning on whether to make a formal change to the current SAA.

## Asset Class Forecasts

For each asset class we produce forecasts of expected returns and expected volatilities using a Wisdom of Crowds<sup>1</sup> approach.

**We choose this approach as we believe it provides a superior outcome given it allows for:**

- » Access to a range of expert opinions about market expectations.
- » Combining information sources for return and volatility forecasts based on different forecasting methodologies reduces the average level of forecast uncertainty relative to using a single source.

**We have used the following publicly available data sources for the underlying forecast components:**

- » Lonsec
- » Blackrock
- » JP Morgan Asset Management
- » AQR
- » PIMCO
- » Callan
- » PGIM
- » Northern Trust
- » State Street
- » Invesco

The forecasts of the external providers are combined by taking the median of the forecast values. This is done for both the expected returns and the volatilities. For asset correlations we use long-run averages sourced from Lonsec. We then review the forecasts and make adjustment consistent with the Mason Stevens House View.

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<sup>1</sup> Armstrong, J. S. (2001). Combining forecasts. Published in J. S. Armstrong (ed.), Principles of forecasting: a handbook for researchers and practitioners, Kluwer Academic Publishing, 2001, pages 417-439.

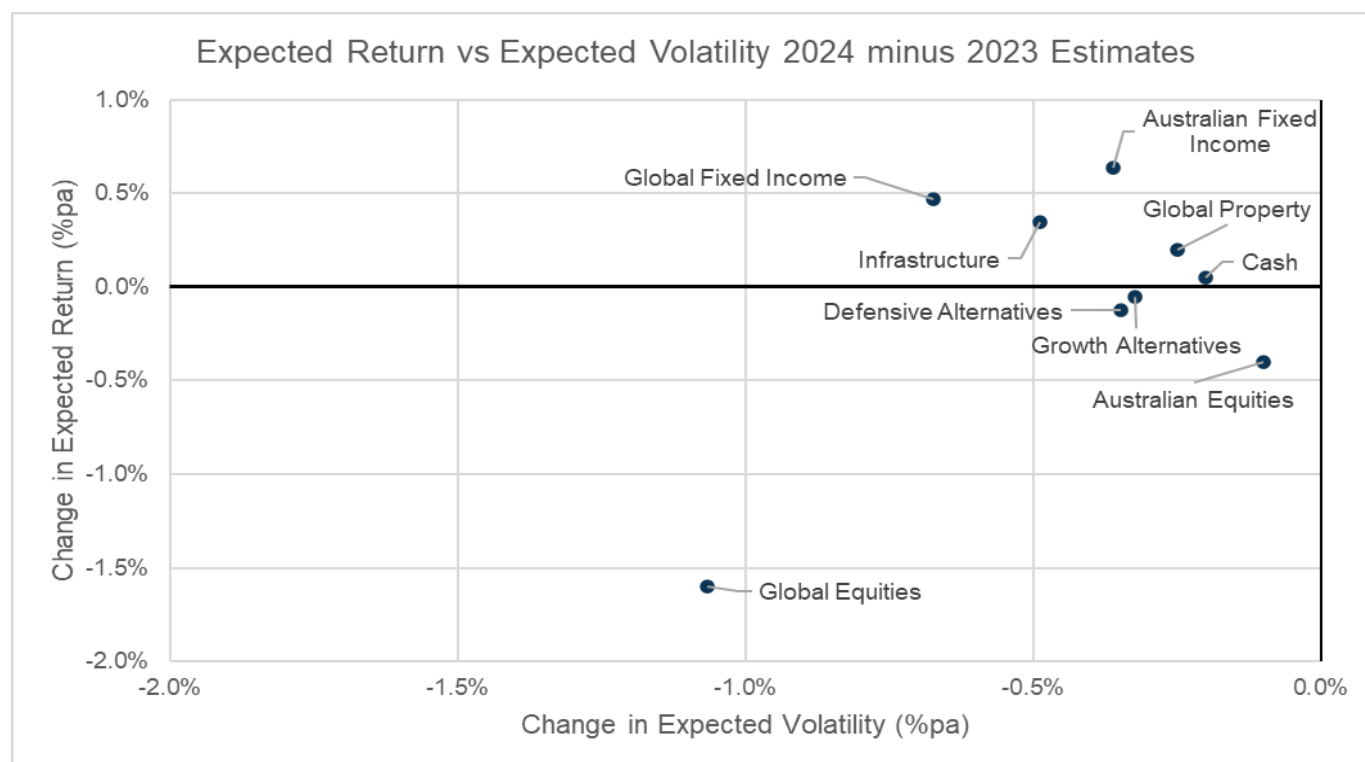
The current Capital Markets Assumptions are shown in Table 1, alongside last year's forecasts. The forecasts for Global Equities fell the most with expected return falling 1.60 percentage points (ppts) and expected volatility falling 1.07 ppts. This downward revision has led to Australian Equities becoming a relatively better proposition with a higher return and lower volatility.

**Table 1: Mason Stevens Capital Market Assumptions:**

Asset Classes	2024 Expected Return (%p.a.)	2023 Expected Return (%p.a.)	Difference (%p.a.)	2024 Expected Volatility (%p.a.)	2023 Expected Volatility (%p.a.)	Difference (%p.a.)
Australian Equities	7.50	7.90	-0.40	14.55	14.65	-0.10
Global Equities	6.30	7.90	-1.60	14.80	15.87	-1.07
Global Infrastructure	7.00	6.65	+0.35	14.81	15.30	-0.49
Growth Alternatives	6.40	6.45	-0.05	10.60	10.92	-0.32
Defensive Alternatives	4.28	4.40	-0.12	7.20	7.55	-0.35
Global Property	6.40	6.20	+0.20	17.55	17.80	-0.25
Australian Fixed Income	4.34	3.70	+0.64	4.89	5.25	-0.36
Global Fixed Income	4.22	3.75	+0.47	4.00	4.67	-0.67
Cash	3.25	3.20	+0.05	0.30	0.50	-0.20

Source: Mason Stevens OCIO

**Chart 1: Change in expected returns and volatilities:**



Source: Mason Stevens OCIO

**Table 2: Lonsec asset class correlations:**

<b>Lonsec 2023 Correlation Matrix</b>									
	<b>AEQ</b>	<b>GEQ</b>	<b>AFI</b>	<b>GFI</b>	<b>GP</b>	<b>GI</b>	<b>GA</b>	<b>DA</b>	<b>C</b>
<b>Australian Equities (AEQ)</b>	1.00	0.53	0.00	0.18	0.71	0.67	-0.06	-0.17	-0.02
<b>Global Equities (GEQ)</b>	0.53	1.00	0.14	0.05	0.42	0.45	0.08	-0.10	0.04
<b>Australian Fixed Income (AFI)</b>	0.00	0.14	1.00	0.74	0.06	0.06	-0.01	0.14	0.33
<b>Global Fixed Income (GFI)</b>	0.18	0.05	0.74	1.00	0.39	0.34	-0.13	0.10	0.31
<b>Global Property (GP)</b>	0.71	0.42	0.06	0.39	1.00	0.85	-0.04	-0.17	0.02
<b>Global Infrastructure (GI)</b>	0.67	0.45	0.06	0.34	0.85	1.00	-0.07	-0.22	0.05
<b>Growth Alternatives (GA)</b>	-0.06	0.08	-0.01	-0.13	-0.04	-0.07	1.00	0.44	0.27
<b>Defensive Alternatives (DA)</b>	-0.17	-0.10	0.14	0.10	-0.17	-0.22	0.44	1.00	0.36
<b>Cash (C)</b>	-0.02	0.04	0.33	0.31	0.02	0.05	0.27	0.36	1.00

Source: Lonsec Research

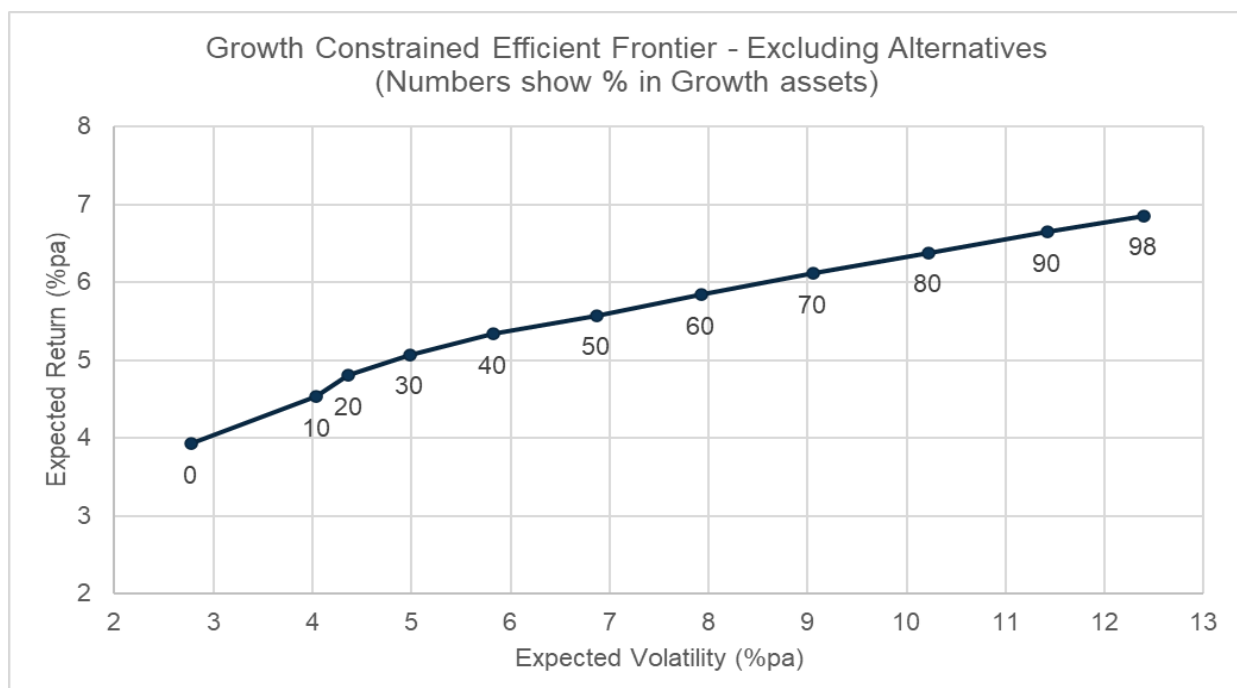
# SAA Portfolio Construction Process and Results

The SAA portfolio construction process uses a constrained mean-variance optimisation model to produce model portfolio weights across the range of available asset classes. The objective of the portfolio construction process is to produce a portfolio with a maximised return/risk trade-off subject to a constraint defining how much of the model portfolio exposure is allocated to growth assets.

The complete list of constraints is:

- » Long-only exposures must add to 100% (no leverage).
- » No short selling (long-only portfolio).
- » Growth asset exposure constrained (progressively) from 0% to 98% of the model portfolio. This produces an efficient frontier of models that can be mapped to various risk appetites.
- » Individual asset class minimum weight constraints are included in the model construction process to ensure final models are investable and an adequate level of diversification is maintained:
  - » The minimum exposure to Cash equals 2% of each portfolio.
  - » For models with allocations to growth assets of 50% and above, we set a minimum exposure of 5% to each of the Infrastructure and Property asset classes for diversification reasons, and a maximum of 6% driven by the practical consideration of allocating no more than 3% per manager.
  - » For the Fixed Income and Equities asset classes, we set a constraint that ensures that the global component is at least 45% of the total exposure to that asset class.
  - » The Alternatives maximum is driven by practical implementation considerations and varies by risk profile, but never exceeds a total of 14% for the retail portfolios and 23% for wholesale, given the daily liquidity requirements of the retail portfolios which limit the investment universe.

**Chart 2: Strategic Asset Allocation Efficient Frontier Excluding Alternatives:**



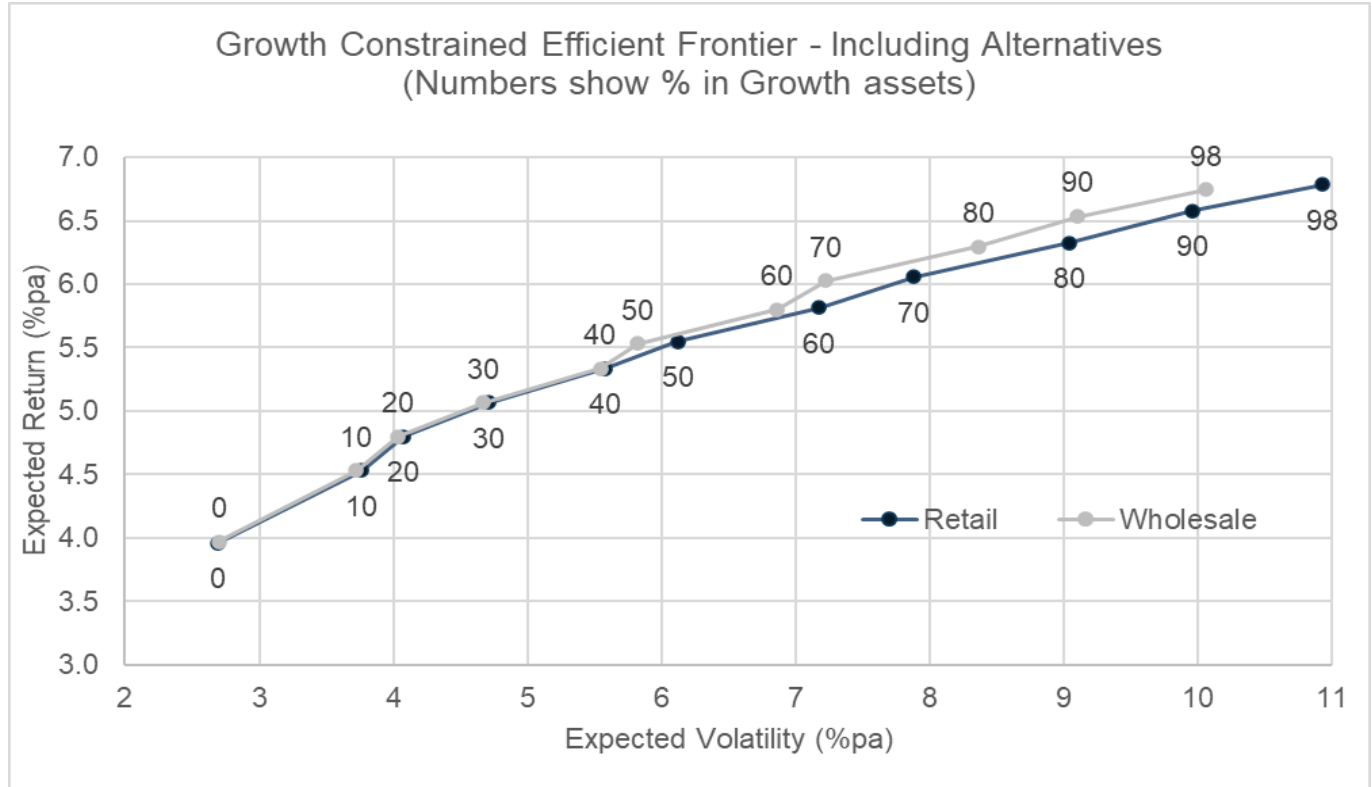
Source: Mason Stevens OCIO

**Table 3: Strategic Asset Allocation Model Results (Excluding Alternatives) – Retail & Wholesale:**

Growth Exp. (%)	Australian Equity	Global Equity	Infrastructure	Global Property	Australian Fixed Income	Global Fixed Income	Cash
0%	0.0	0.0	0.0	0.0	33.0	33.0	34.0
10%	5.2	4.3	0.5	0.0	48.4	39.6	2.0
20%	8.9	7.2	3.9	0.0	42.9	35.1	2.0
30%	13.2	10.8	6.0	0.0	37.4	30.6	2.0
40%	18.7	15.3	6.0	0.0	31.9	26.1	2.0
50%	21.5	17.6	6.0	5.0	26.4	21.6	2.0
60%	27.0	22.1	6.0	5.0	20.9	17.1	2.0
70%	32.5	26.6	6.0	5.0	15.4	12.6	2.0
80%	38.0	31.0	6.0	5.0	9.9	8.1	2.0
90%	43.5	35.5	6.0	5.0	4.4	3.6	2.0
98%	47.3	38.7	6.0	6.0	0.0	0.0	2.0

Source: Mason Stevens OCIO

**Chart 3: Strategic Asset Allocation Efficient Frontier Including Alternatives:**



Source: Mason Stevens OCIO

The higher allocation to Alternatives in the wholesale SAAs has the effect of delivering very similar expected returns but substantially reduces expected volatility.

**Table 4: Strategic Asset Allocation Model Results (Including Alternatives) - Retail:**

Growth Exp. (%)	Australian Equity	Global Equity	Infra	Growth Alts	Defensive Alts	Global Property	Australian Fixed Income	Global Fixed Income	Cash
0%	0.0	0.0	0.0	0.0	10.0	0.0	29.7	29.7	30.7
10%	4.7	3.8	1.5	0.0	10.0	0.0	42.9	35.1	2.0
20%	8.3	6.8	5.0	0.0	10.0	0.0	37.4	30.6	2.0
30%	13.2	10.8	6.0	0.0	10.0	0.0	31.9	26.1	2.0
40%	18.7	15.3	6.0	0.0	10.0	0.0	26.4	21.6	2.0
50%	18.7	15.3	6.0	5.0	7.5	5.0	22.3	18.2	2.0
60%	24.2	19.8	6.0	5.0	7.5	5.0	16.8	13.7	2.0
70%	27.5	22.5	6.0	9.0	5.0	5.0	12.7	10.3	2.0
80%	33.0	27.0	6.0	9.0	5.0	5.0	7.2	5.8	2.0
90%	36.9	30.1	6.0	12.0	0.0	5.0	4.4	3.6	2.0
98%	40.7	33.3	6.0	12.0	0.0	6.0	0.0	0.0	2.0

Source: Mason Stevens OCIO

**Table 5: Strategic Asset Allocation Model Results (Including Alternatives) - Wholesale:**

Growth Exp. (%)	Australian Equity	Global Equity	Infra	Growth Alts	Defensive Alts	Global Property	Australian Fixed Income	Global Fixed Income	Cash
0%	0.0	0.0	0.0	0.0	12.0	0.0	29.0	29.0	30.0
10%	4.5	3.7	1.8	0.0	12.0	0.0	41.8	34.2	2.0
20%	8.2	6.7	5.2	0.0	12.0	0.0	36.3	29.7	2.0
30%	13.2	10.8	6.0	0.0	12.0	0.0	30.8	25.2	2.0
40%	18.7	15.3	6.0	0.0	12.0	0.0	25.3	20.7	2.0
50%	17.3	14.2	6.0	7.5	10.0	5.0	20.9	17.1	2.0
60%	22.8	18.7	6.0	7.5	10.0	5.0	15.4	12.6	2.0
70%	24.2	19.8	6.0	15.0	8.0	5.0	11.0	9.0	2.0
80%	29.7	24.3	6.0	15.0	8.0	5.0	5.5	4.5	2.0
90%	32.5	26.5	6.0	20.0	0.0	5.0	4.4	3.6	2.0
98%	36.3	29.7	6.0	20.0	0.0	6.0	0.0	0.0	2.0

Source: Mason Stevens OCIO



# Asset Allocation Ranges

Asset allocation ranges have been set using maximum tracking error to determine appropriate limits. The ranges have two components, (i) an active decision component equalling  $\pm 10\%$ , and (ii) a drift component equal to  $\pm 5\%$ . This means the total active weight range around the SAA will equal  $\pm 15\%$  (note we also ensure all weights are positive).

Note that we can design tailored solutions based on client asset allocation structure and risk preferences. For example, if more or less tracking error is required, we can design asset allocation ranges that meet these requirements.

Tables 6 show the updated SAA and associated minimum and maximum exposures for the Conservative, Balanced, Growth and High Growth portfolios excluding alternative asset classes.

**Table 6: Asset Allocation Ranges (excluding Alternatives) - Retail:**

Asset Class	Conservative			Balanced			Growth			High Growth		
	Min Wgt (%)	SAA Wgt (%)	Max Wgt (%)	Min Wgt (%)	SAA Wgt (%)	Max Wgt (%)	Min Wgt (%)	SAA Wgt (%)	Max Wgt (%)	Min Wgt (%)	SAA Wgt (%)	Max Wgt (%)
<b>Australian Equities</b>	4	19	34	12	27	42	23	38	53	32	47	62
<b>Global Equities</b>	0	15	30	7	22	37	16	31	46	24	39	54
<b>Australian Fixed Income</b>	17	32	47	6	21	36	0	10	25	0	0	15
<b>Global Fixed Income</b>	11	26	41	2	17	32	0	8	23	0	0	15
<b>Australian Property</b>	0	0	15	0	0	15	0	0	15	0	0	15
<b>Global Property</b>	0	0	15	0	5	20	0	5	20	0	6	21
<b>Global Infrastructure</b>	0	6	21	0	6	21	0	6	21	0	6	21
<b>Cash</b>	2	2	17	2	2	17	2	2	17	2	2	17
<b>Expected Return (% pa)</b>	5.3			5.8			6.4			6.9		
<b>Expected Volatility (% pa)</b>	5.8			7.9			10.2			12.4		
<b>Growth Asset Exposure (%)</b>	40			60			80			98		

Source: Mason Stevens OCIO

Tables 7-10 show the SAA and associated minimum and maximum exposures for the Conservative, Balanced, Growth and High Growth Retail and Wholesale portfolios, which include the Alternatives asset classes.

**Table 7: Conservative SAA with Asset Allocation Ranges (including Alternatives):**

Asset Class	Retail			Wholesale		
	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)
Australian Equities	4	19	34	4	19	34
Global Equities	0	15	30	0	15	30
Australian Fixed Income	11	26	41	10	25	40
Global Fixed Income	7	22	37	6	21	36
Australian Property	0	0	15	0	0	15
Global Property	0	0	15	0	0	15
Global Infrastructure	0	6	21	0	6	21
Growth Alternatives	0	0	15	0	0	15
Defensive Alternatives	0	10	25	0	12	27
Cash	2	2	17	2	2	17
Expected Return (% pa)	5.3			5.3		
Expected Volatility (% pa)	5.6			5.5		
Growth Asset Exposure (%)	40			40		

Source: Mason Stevens OCIO

**Table 8: Balanced SAA with Asset Allocation Ranges (including Alternatives):**

Asset Class	Retail			Wholesale		
	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)
Australian Equities	9	24	39	8	23	38
Global Equities	5	20	35	4	19	34
Australian Fixed Income	2	17	32	0	15	30
Global Fixed Income	0	13.5	29	0	12.5	27.5
Australian Property	0	0	15	0	0	15
Global Property	0	5	20	0	5	20
Global Infrastructure	0	6	21	0	6	21
Growth Alternatives	0	5	20	0	7.5	22.5
Defensive Alternatives	0	7.5	22.5	0	10	25
Cash	2	2	17	2	2	17
Expected Return (% pa)	5.8			5.8		
Expected Volatility (% pa)	7.2			6.9		
Growth Asset Exposure (%)	60			60		

Source: Mason Stevens OCIO

**Table 9: Growth SAA with Asset Allocation Ranges (including Alternatives):**

Asset Class	Retail			Wholesale		
	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)
Australian Equities	18	33	48	15	30	45
Global Equities	12	27	42	9	24	39
Australian Fixed Income	0	7	22	0	5.5	20.5
Global Fixed Income	0	6	21	0	4.5	19.5
Australian Property	0	0	15	0	0	15
Global Property	0	5	20	0	5	20
Global Infrastructure	0	6	21	0	6	21
Growth Alternatives	0	9	34	0	15	30
Defensive Alternatives	0	5	20	0	8	23
Cash	2	2	17	0	2	17
Expected Return (% pa)	6.3			6.3		
Expected Volatility (% pa)	9.0			8.4		
Growth Asset Exposure (%)	80			80		

Source: Mason Stevens OCIO

**Table 10: High Growth SAA with Asset Allocation Ranges (including Alternatives):**

Asset Class	Retail			Wholesale		
	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)	Min. Weight (%)	SAA Weight (%)	Max. Weight (%)
Australian Equities	26	41	56	21	36	51
Global Equities	16	33	48	15	30	45
Australian Fixed Income	0	0	15	0	0	15
Global Fixed Income	0	0	15	0	0	15
Australian Property	0	0	15	0	0	15
Global Property	0	6	21	0	6	21
Global Infrastructure	0	6	21	0	6	21
Growth Alternatives	0	12	27	5	20	35
Defensive Alternatives	0	0	15	0	0	15
Cash	2	2	17	2	2	17
Expected Return (% pa)	6.8			6.7		
Expected Volatility (% pa)	10.9			10.1		
Growth Asset Exposure (%)	98			98		

Source: Mason Stevens OCIO

# SAA Passive Implementation

The SAA represents the “risk-neutral” portfolio designed to satisfy the long run risk and return preferences of each investment option. For each asset class in the SAA we use the following passive ETF’s for performance measurement.

**Table 11: Passive ETF Selection:**

Asset Class	Benchmark	Passive ETF Name
<b>Australian Equities</b>	S&P/ASX 200	iShares Core S&P/ASX 200
<b>Global Equities</b>	MSCI World Ex Australia	Vanguard MSCI International Shares
<b>Australian Fixed Income</b>	Bloomberg AusBond 0+ Composite	iShares Core Composite Bond
<b>Global Fixed Income</b>	Bloomberg Global Aggregate (Hgd)	SPDR Bloomberg Global Aggregate Bonds UCITS ETF Hedged USD
<b>Australian Property</b>	FTSE EPRA/NAREIT Developed	iShares Global REIT
<b>Global Property</b>	FTSE EPRA/NAREIT Developed	iShares Global REIT
<b>Global Infrastructure</b>	S&P Global Infrastructure	iShares Global Infrastructure
<b>Growth Alternatives</b>	50% LPX50 Listed PE Index / 50% Bloomberg Commodity AUD TR Index	Vaneck Global Listed Private Equity ETF (GPEQ) / ETRACS Bloomberg Commodity Index Total Return ETN
<b>Defensive Alternatives</b>	Credit Suisse Hedge Fund Index	IQ Hedge Multi-Strategy Tracker
<b>Cash</b>	Bloomberg Ausbond Bank Bill Index	iShares Core Cash

Source: Mason Stevens OCIO

# Historical Performance Analysis

We have produced a performance analysis for the updated SAA portfolios based on historical asset class returns (monthly) covering the period 2004 to 2023. In this analysis we assume the SAA weights in each portfolio were held constant over the analysis period.

**Table 12: Historical Performance Analysis:**

Growth Exposure	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	98%
<b>Best Year</b>	10.6 (2008)	10.1 (2014)	10.8 (2019)	12.7 (2019)	14.6 (2019)	16.4 (2019)	19.4 (2013)	22.7 (2013)	26.0 (2013)	29.4 (2013)	32.0 (2013)
<b>Worst Year</b>	-6.9 (2022)	-10.0 (2022)	-9.0 (2022)	-8.2 (2022)	-7.6 (2022)	-11.7 (2008)	-16.1 (2008)	-20.2 (2008)	-24.2 (2008)	-28.0 (2008)	-31.0 (2008)
<b># Neg Years</b>	2	1	1	2	2	2	2	3	3	3	3
<b>Implied Prob Neg Return</b>	10.0%	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%	15.0%	15.0%	15.0%	15.0%

Source: Mason Stevens OCIO

**Table 13: Year-By-Year Historical Return Results:**

<b>Growth Exposure</b>	<b>0%</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>40%</b>	<b>50%</b>	<b>60%</b>	<b>70%</b>	<b>80%</b>	<b>90%</b>	<b>98%</b>
<b>2023</b>	4.79	6.36	7.24	8.28	9.56	10.44	11.73	13.04	14.36	15.69	16.67
<b>2022</b>	-6.95	-9.97	-9.01	-8.20	-7.62	-7.74	-7.18	-6.64	-6.10	-5.58	-5.31
<b>2021</b>	-1.42	0.13	2.37	4.71	7.20	10.04	12.64	15.29	18.00	20.76	23.08
<b>2020</b>	3.28	4.73	4.16	3.80	3.82	2.62	2.54	2.43	2.26	2.05	1.62
<b>2019</b>	5.26	8.95	10.81	12.69	14.58	16.38	18.31	20.26	22.24	24.23	25.82
<b>2018</b>	2.69	2.91	2.62	2.33	2.01	1.94	1.61	1.27	0.92	0.57	0.33
<b>2017</b>	3.02	4.58	5.48	6.40	7.37	8.00	8.98	9.97	10.96	11.96	12.69
<b>2016</b>	3.40	4.69	5.50	6.28	7.01	7.47	8.17	8.87	9.56	10.23	10.71
<b>2015</b>	2.76	3.41	3.63	3.96	4.45	5.13	5.61	6.07	6.51	6.95	7.33
<b>2014</b>	7.53	10.07	10.59	10.95	11.04	11.83	11.92	12.00	12.08	12.16	12.36
<b>2013</b>	2.39	4.96	7.86	10.82	13.86	16.29	19.45	22.68	26.00	29.38	32.00
<b>2012</b>	7.07	9.47	10.21	11.05	12.06	13.51	14.52	15.53	16.54	17.55	18.45
<b>2011</b>	8.90	8.99	7.35	5.63	3.76	1.87	0.04	-1.76	-3.53	-5.29	-6.69
<b>2010</b>	6.63	6.78	5.84	5.02	4.38	3.95	3.29	2.62	1.94	1.24	0.72
<b>2009</b>	4.39	5.97	6.80	7.91	9.45	10.64	12.18	13.72	15.26	16.80	17.95
<b>2008</b>	10.55	7.07	2.37	-2.29	-6.99	-11.74	-16.07	-20.22	-24.22	-28.05	-31.04
<b>2007</b>	5.61	5.28	5.72	6.11	6.45	5.60	5.93	6.25	6.56	6.88	6.88
<b>2006</b>	4.54	5.27	6.94	8.57	10.10	12.31	13.87	15.45	17.03	18.63	20.06
<b>2005</b>	6.06	7.58	8.93	10.32	11.77	13.75	15.23	16.73	18.23	19.74	21.07
<b>2004</b>	7.15	9.01	10.23	11.46	12.71	13.95	15.22	16.50	17.78	19.08	20.12

Source: Mason Stevens OCIO

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