

Morgan Stanley



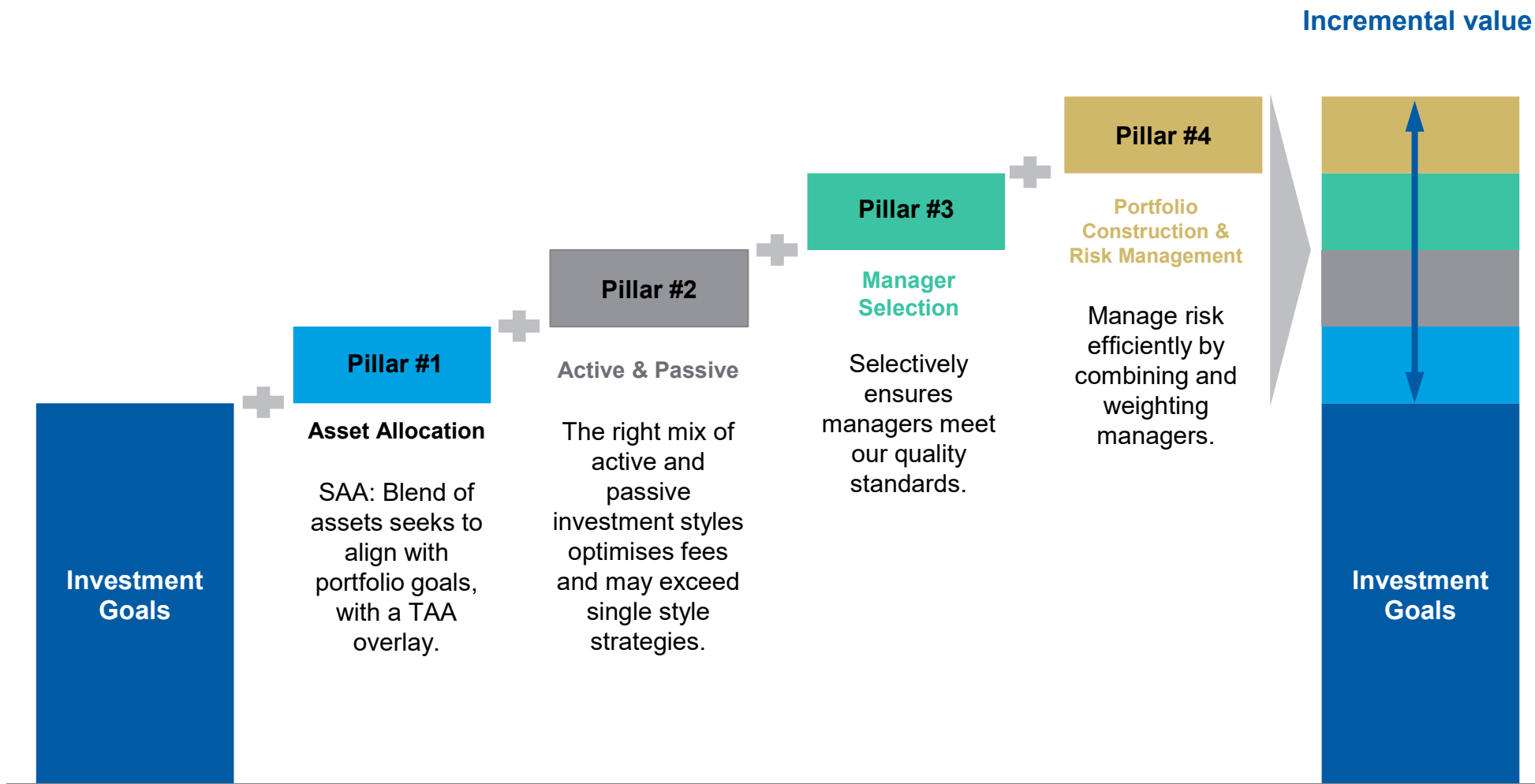
Morgan Stanley Wealth Management Active Passive Model

March 8, 2023

For important disclosures, refer to the Disclosure section, located at the end of this report.

Investment Process

Our investment process is built on four pillars



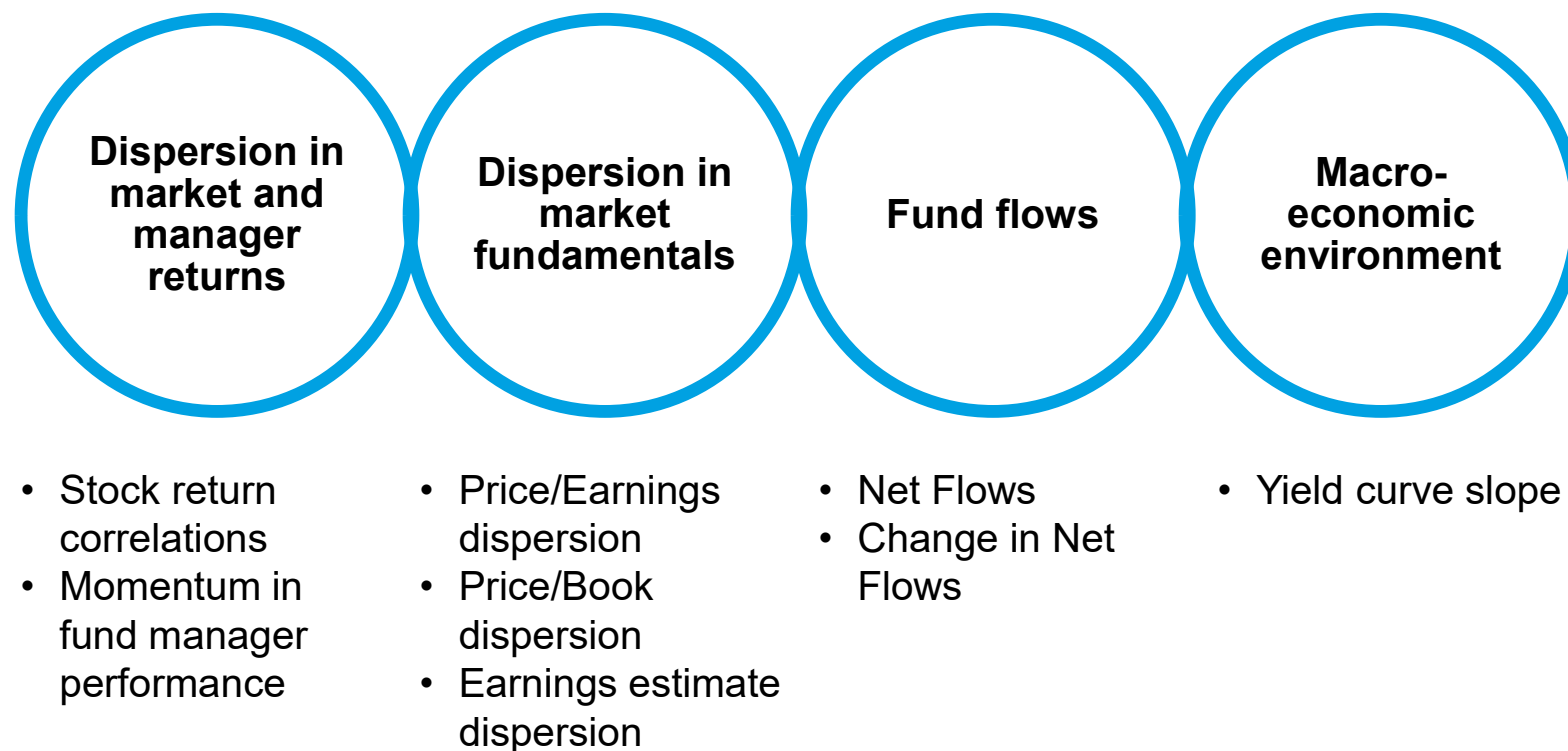
Source: Morgan Stanley Wealth Management Research

Active Passive Model

No asset class is inherently suited to only active or passive management

Our Active Passive Model considers whether market conditions are conducive for active management to outperform and provides an estimate as to whether a manager will outperform over the next one to three years. This aides in our decision in how much to allocate to active management.

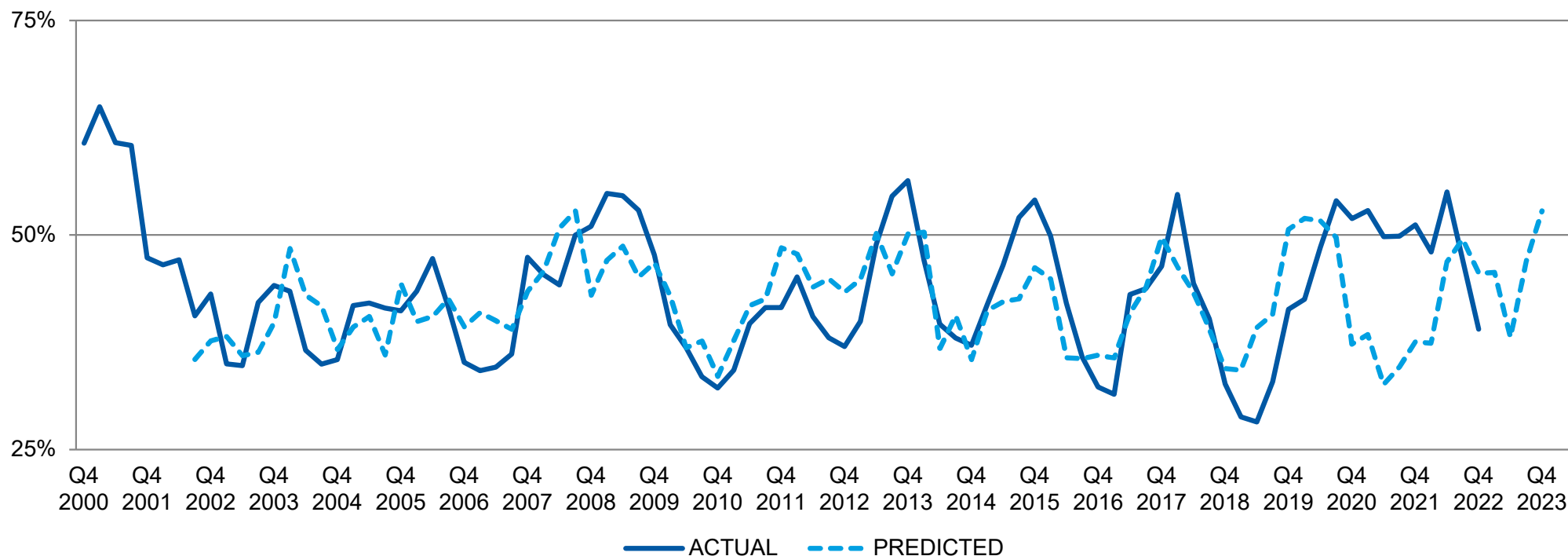
Our predictive model weights signals and adjusts for style and size bias. These signals are focused on:



Active Passive Model

The models indicate potential explanatory ability for Australian Equities

Percent of Australian Equity Large Cap Core Fund Managers Outperforming the S&P/ASX 100



Percent of Australia Large Cap Active Managers*

... outperforming the S&P/ASX 100

- Australian Equity Large Cap Core
- Australian Equity Large Cap Growth
- Australian Equity Large Cap Value

* Four quarter moving average

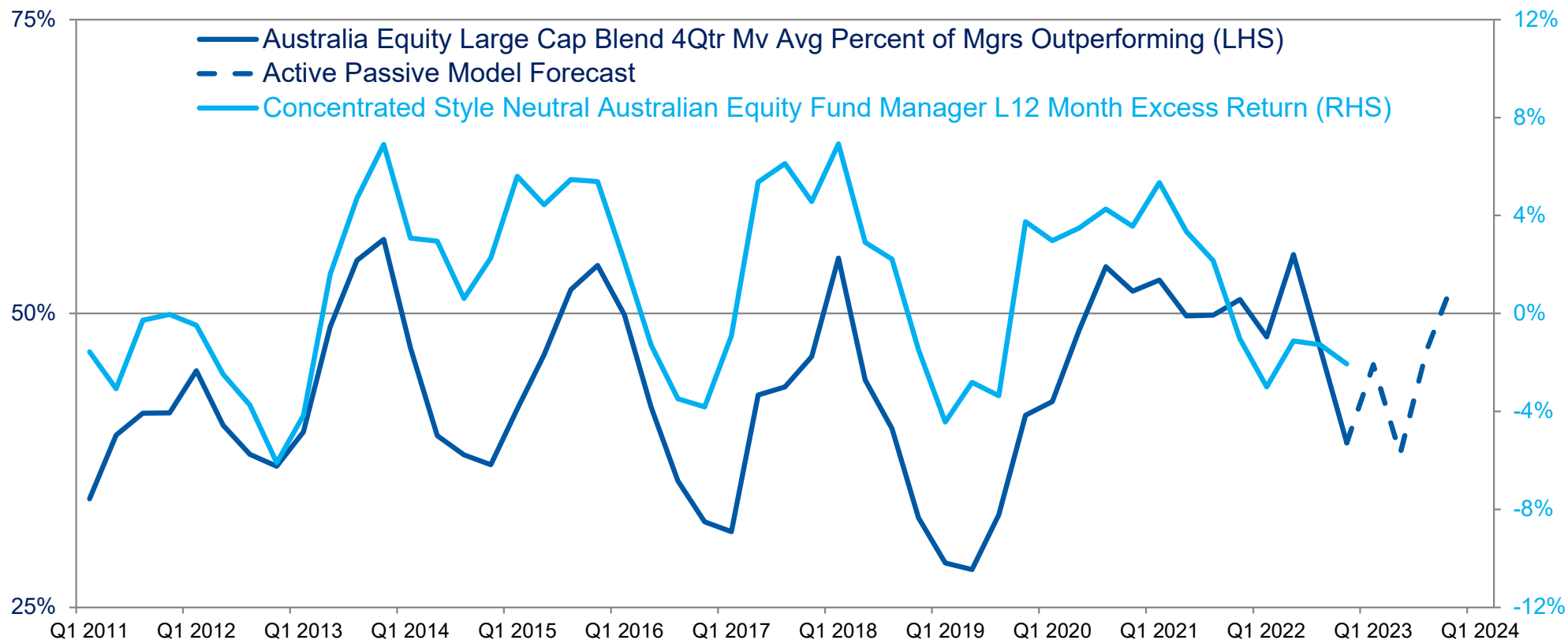
	Current Q4 2022	Forecast Q4 2023	Signal Median	← Passive	→ Active
Australian Equity Large Cap Core	39%	53%	42%		
Australian Equity Large Cap Growth	28%	71%	48%		
Australian Equity Large Cap Value	54%	84%	42%		

30% 50% 70%

Source: Morningstar, Morgan Stanley Wealth Management Research

Active Passive Model

The Active Passive signals are compared against actual managed fund performance



Fund monitoring is important to confirm the signal from the Active Passive Model.

The Active Passive Model gives a top-down perspective to complement bottom-up attribution analysis of managed funds.

Active Passive Model

Key Observations

1. Active and Passive allocations are one part of our investment strategy and should be cohesive with the other building blocks.
2. Good portfolio construction adjusts for all risks including opportunity costs.
3. Making active decisions has two requirements:
 - Evidence of security mispricing and market inefficiencies exist
 - Evidence of ability to identify and exploit those inefficiencies.
4. Practical constraints in implementation must be managed
 - Fees, liquidity, transaction costs, and availability of securities.

Disclosure Section

The information and opinions in Morgan Stanley Wealth Management Research were prepared by Morgan Stanley Wealth Management Australia Pty Ltd (ABN 19 009 145 555, holder of Australian Financial Services License No. 240813) ("Morgan Stanley Wealth Management"), and Morgan Stanley Wealth Management takes responsibility for the production of this report. Morgan Stanley Wealth Management's Research Department produces and distributes research products for clients of Morgan Stanley Wealth Management.

This Morgan Stanley Wealth Management Research is disseminated and available only in Australia.

For important disclosures (including copies of historical disclosures) regarding the securities and/or companies that are the subject of this Morgan Stanley Wealth Management Research product, please contact Morgan Stanley Wealth Management Research, Level 26 Chifley Tower, 2 Chifley Square, Sydney NSW 2000, Attention: Research Management. In addition, the same important disclosures, with the exception of the historical disclosures, are contained on the Firm's disclosure website: <https://www.morganstanley.com/online/researchdisclosures> Historical disclosures will be provided upon request back to June 1, 2009.

In addition, please contact us if you require Morgan Stanley Wealth Management Research model portfolio performance figures for previous periods.

Global Research Conflict Management Policy

Morgan Stanley Wealth Management has a Conflict Management policy available at:

<https://www.morganstanley.com/online/researchconflictolicies>

Morgan Stanley & Co. LLC Stock Rating System & Definitions

For an explanation of Morgan Stanley's Stock Rating system and definitions, please refer to Morgan Stanley Wealth Management's disclosure website: <https://www.morganstanley.com/online/researchdisclosures>

Hybrid and Convertible Securities Rating System and Definitions

The value of hybrid and convertible securities can be impacted by a number of events including but not limited to movements in credit spreads, secondary market liquidity, and relative attractiveness of hybrid returns versus other asset classes. Significant event risk can also impact the value of hybrid and convertible securities. These include, but are not limited to credit adjustment by rating agencies, underlying entity fundamentals, changes in the tax and or regulatory environment, solvency issues surrounding the underlying entity and changes to the duration or maturity date. For a large number of investment grade securities, the rights to redeem, convert, change, and/or extend the terms lie with the issuer and not the holder of the security. Morgan Stanley Wealth Management cannot make an assessment on potential changes to terms until they have been announced by the issuer. Neither the capital value nor the distribution income of hybrid or convertible securities is guaranteed. In an event of default, hybrid securities may rank ahead of equity holders but behind debt holders in the winding up of an entity. For full terms and conditions of each hybrid or convertible security, including specific risks related to each security, refer to the prospectus or product disclosure statement available from your Financial Adviser. Morgan Stanley Wealth Management Research does not necessarily cover the underlying equity securities for hybrid and convertible securities mentioned in this report.

Investment Risk Rating: Morgan Stanley Wealth Management's hybrids and convertibles risk ratings assess the risk of each security based on a number of quantitative and qualitative factors, including the financial strength of the issuer, debt/equity ratio of the issuer, interest cover of the issuer, the issuer's ability to pay distributions, conversion risk, dilution risk of conversion into equity, and duration risk. Risk ratings assess both the risk of the issuer and the specific risk of the actual security. An issue can be rated high risk for example, despite the issuer being of sound financial health, due to security specific terms which are security holder 'unfriendly', or there is a high degree of uncertainty (and therefore "redemption value") on the exit and/or conversion conditions.

Each security will then be given one of four ratings:

- Low Risk – a security is backed by an entity that has strong capacity to meet its financial obligations and commitments. The risk of the entity missing a distribution payment is considered low.
- Medium Risk – a security is backed by an entity that exhibits adequate protection parameters, however, adverse economic conditions or changes in circumstances could lead to a weakened capacity of the entity to meet its financial obligations.
- High Risk – a security is backed by an entity that is more vulnerable to adverse economic conditions which may lead to distributions being lowered or cancelled. A security may also be considered High Risk when the outcomes surrounding the maturity date are largely unknown.
- Speculative Risk – a security is backed by an entity that is highly vulnerable to adverse economic conditions. An entity may also be showing signs of financial stress. There is a high degree of uncertainty surrounding the entity's ability to make a regular distribution payment.

Other Important Disclosures

The research analysts or strategists principally responsible for the preparation of Morgan Stanley Wealth Management Research have received compensation based upon various factors, including quality of research, investor client feedback, competitive factors, and firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues). Research analysts' or strategists' compensation is not linked to the profitability or revenues of particular capital markets transactions performed by Morgan Stanley Wealth Management or the profitability or revenues of particular fixed income trading desks. Morgan Stanley Wealth Management and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Wealth Management Research. Morgan Stanley Wealth Management and/or its affiliates sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Wealth Management Research on a principal basis. This communication has been prepared solely for information purposes and does not constitute an offer or a recommendation to buy or sell any particular security or to adopt any specific investment strategy. The material contained herein is not intended to constitute investment advice, nor should it be construed in any way as tax, accounting, legal or regulatory advice. To the extent this communication is deemed to contain any general financial advice, such advice is prepared without taking account your objectives, financial situation or needs and because of this, you should, before acting on the general advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs, if the advice relates to the acquisition of a particular financial product for which a target market determination ('TMD'), product disclosure statement or other disclosure document ('offer document') is available, you should obtain the offer document and TMD relating to the particular product and consider these documents before making any decision whether to acquire the product. Morgan Stanley Wealth Management recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Wealth Management Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Morgan Stanley Smith Barney LLC, its affiliates and Morgan Stanley Financial Advisers do not provide legal or tax advice. Each client should always consult his/her personal tax and/or legal adviser for information concerning his/her individual situation and to learn about any potential tax or other implications that may result from acting on a particular recommendation. Morgan Stanley Wealth Management Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The important disclosures contained on the Firm's disclosure website at: <https://www.morganstanley.com/online/researchdisclosures> list all companies mentioned where Morgan Stanley Wealth Management or Morgan Stanley & Co. LLC owns 1% or more of a class of common equity securities of the securities/instruments of companies. Morgan Stanley Wealth Management or its affiliates may trade securities/instruments or derivatives of securities/instruments in ways different from those discussed in Morgan Stanley Wealth Management Research.

Employees of Morgan Stanley Wealth Management not involved in the preparation of Morgan Stanley Wealth Management Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Wealth Management Research. Morgan Stanley Wealth Management holds various roles in respect of financial products. Subject to the Conflict Management policy, Morgan Stanley Wealth Management may receive a fee (which may or may not be at an additional cost to the investor) from a product issuer which will be disclosed to investors prior to investments in relevant securities, instruments or strategies. Investors are strongly encouraged to consult with their financial adviser for further details to evaluate any potential investment. Morgan Stanley Wealth Management Research is based on public information. Morgan Stanley Wealth Management makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Wealth Management Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Wealth Management Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley Wealth Management business areas, including investment banking personnel.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments. Morgan Stanley Wealth Management and its affiliates may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report. The trademarks and service marks contained in Morgan Stanley Wealth Management Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data.

Morgan Stanley Wealth Management Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley Wealth Management. Morgan Stanley Wealth Management Research is disseminated and available primarily electronically, and, in some cases, in printed form. This report was prepared solely upon information generally available to the public. No representation is made that it is accurate and complete. **Additional information on recommended securities/instruments is available on request.**

© 2023 Morgan Stanley Wealth Management Australia Pty Ltd

If you wish to unsubscribe to this report please email: wealth.management.au@morganstanley.com