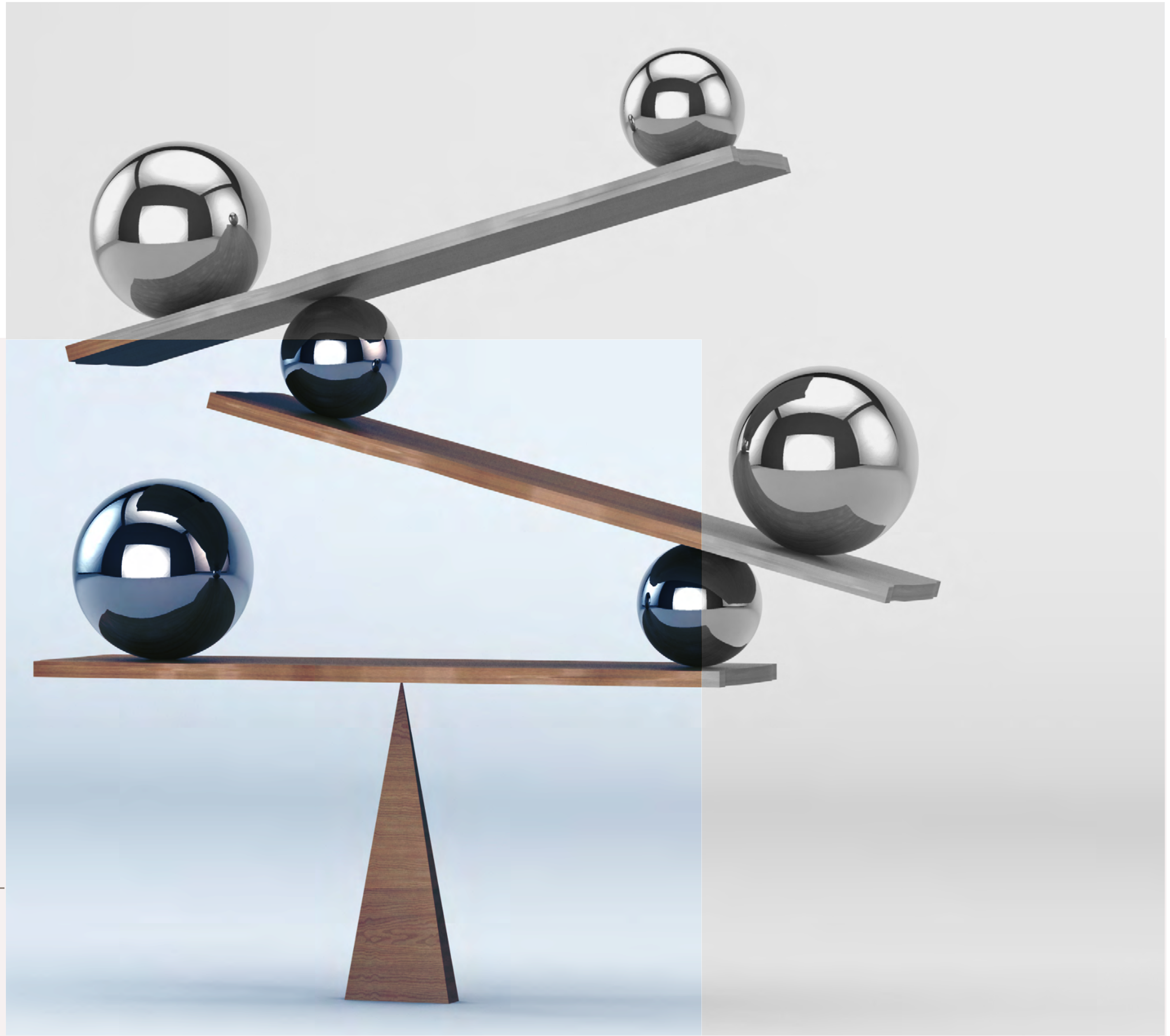
MASON
INVESTMENT ADVISORY
SERVICES, INC.



Why We Rebalance Portfolios

Most institutional investors share the conviction that allocating assets in a diversified portfolio across multiple asset classes is the best way to achieve a desired risk/return profile over time. Once asset allocation targets for such a portfolio are determined and the investments are made in the proper proportion for each asset class, the overall portfolio may be said to be *in balance*. At this point, the portfolio should be allocated properly to optimize the likelihood of delivering a specified target return in the future assuming that the capital markets assumptions underlying the allocation decisions hold true.

Market movements shift portfolios

As time passes, however, the relative values of the holdings in each asset class inevitably shift. Mixed markets drive gains in some asset classes while others lag or even lose value. The result is that the initial allocation moves out of balance, and this in turn compromises the potential ability of the portfolio to produce the originally intended performance outcome.

The solution when that occurs is to *rebalance* the portfolio back to its original allocation. In basic terms, this is accomplished by selling securities in asset classes that have increased in value and using the proceeds to buy securities in classes that have lost value, essentially following the age-old admonition to “sell high and buy low.”

When should you rebalance?

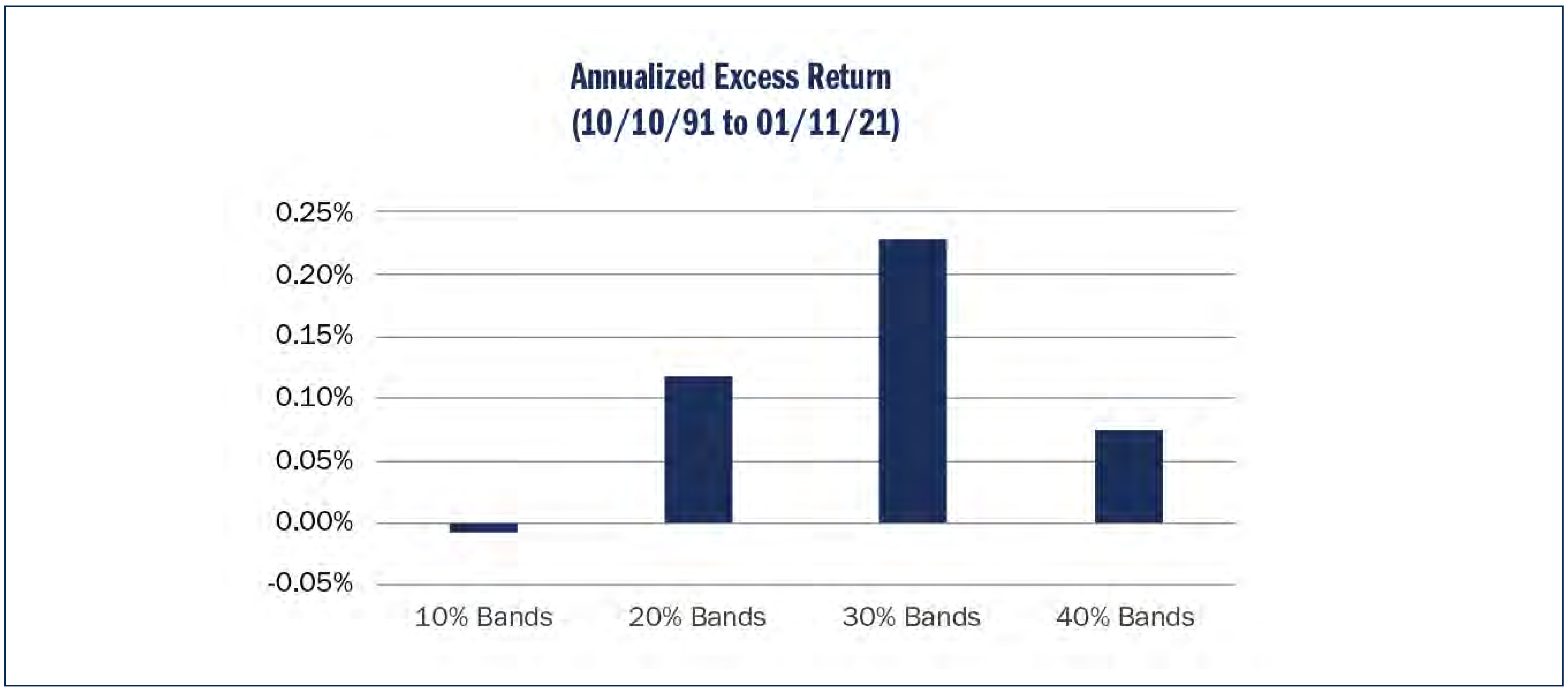
While the principle behind rebalancing is relatively simple, there are questions that arise around implementation. Most important is the question of exactly when to rebalance. How often should you check the level of imbalance and how far out of balance should a portfolio be before it triggers a rebalance? Also, are there times when an out of balance portfolio should not be rebalanced? These are not insignificant issues since the time and degree to which a portfolio is out of balance affects the expected performance of the portfolio. Also, there is a cost to making trades. Rebalancing too often can result in trading expenses exceeding potential gains to performance.

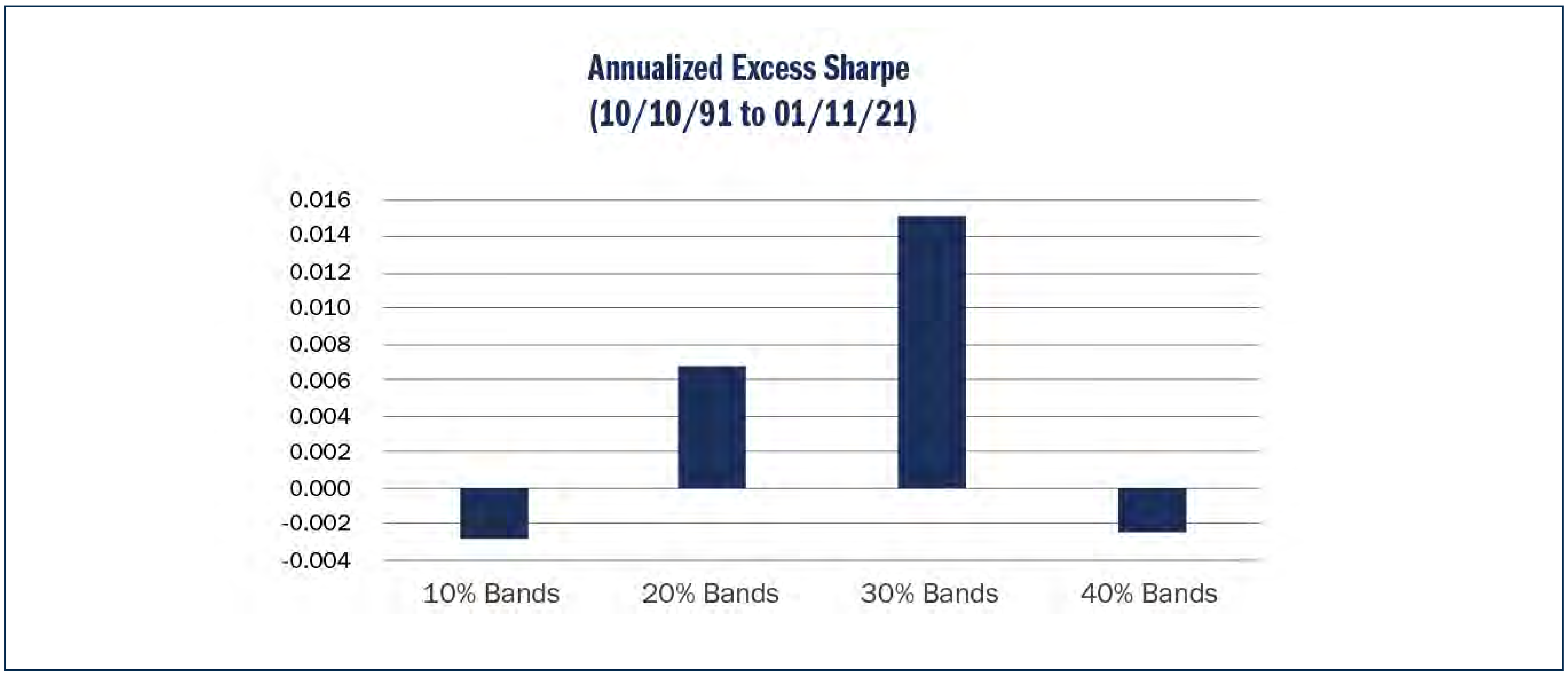
Mason’s approach is based on research

Many investment firms choose to rebalance portfolios at regular intervals, typically quarterly or annually, without any limit on the degree to which the portfolio may be out of balance. Proprietary research conducted by Mason suggests that such approaches are suboptimal and that there is a better way.

We studied the average returns of simulated portfolios with diversified allocations across 20 asset classes for the period from October 1991 through January 2021. We found that rebalancing when allocations reached a 30% deviation from their initial allocation targets led to stronger returns and lower portfolio volatility than rebalancing at preset quarterly intervals, during the 30 year period studied. In fact , rebalancing using a 30% “band” above or below the target allocations resulted in an annualized average return gain over quarterly rebalancing of 0.23%. This may seem like a small number, but it translated to an excess gain of over $32 million for the test period for a $50 million dollar portfolio.

The charts below compare the excess gains over quarterly rebalancing for various bands. The 30% band proved to be optimal both in excess returns and risk-adjusted returns.





Source: Mason Internal Study as of 1/11/21.

Disclosure:

The Mason Rebalancing Analysis is a hypothetical example used for illustrative purposes only and not indicative of any actual investment. It is not meant to represent any portfolio managed by Mason.

Rebalancing strategically can help lower costs

Our study also revealed that choosing to use the 30% band for rebalancing also helped lower trading frequency and thereby trading costs as the table below indicates.

Rebalancing Method	Average Trades Per Year
10% Bands	25.5
20% Bands	8.9
30% Bands	5.4
40% Bands	3.4
Quarterly	64.0
Annual	15.4

Source: Mason Internal Study as of 1/11/21.

Rebalancing portfolios is essential to fully realizing the risk-return benefits of asset allocation and to reaching an institution's risk/return targets. At Mason, we believe that by rebalancing strategically, institutions have the opportunity to increase the value of their portfolio over time while also lowering overall risk.

For more information about Mason's approach to portfolio rebalancing or to learn about working with Mason, please contact Will Thorpe or visit our website.

Institutional clients appreciate the exceptional level of service and attention Mason's credentialed professionals provide, our flexible approach, and the range of options offered.

Get personalized attention from a team that understands your organization.

Connect with an institutional consultant.

About Mason Investment Advisory Services, Inc.

Mason Investment Advisory Services, Inc. is an investment advisory firm registered with the SEC and is a privately owned firm with a national scope. SEC registration does not imply a certain level of skill or training. Mason is devoted to comprehensive investment management and consulting for endowments, foundations and other institutional portfolios and financial planning and wealth management for individuals. As of 12/31/25, Mason managed $15.6B in institutional and private client assets nationwide. Mason was founded in 1982 in the Washington, DC area.

To learn how Mason's institutional consulting and OCIO solutions can help your organization, please contact Will Thorpe at 703-716-6000 or wthorpe@masoncompanies.com.

Disclosures:

The views, opinions and content presented are for informational purposes only and reflect the current opinion of the writers as of December 31, 2025. Opinions and forward-looking statements expressed are subject to change without notice. The content presented does not constitute investment advice, forward-looking basis for any investment decision, and does not purport to provide any legal, tax or accounting advice. The charts and/or graphs contained herein are for educational purposes only and should not be used to predict security prices or market levels. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor. The reader is referred to the regular statistical services, company reports and any official prospectuses for further details. Past performance is not indicative of future results. All investing is subject to risk, including the possible loss of the money you invest. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income. Diversification does not ensure a profit or protect against a loss.

The Mason Rebalancing Study (the "Rebalancing Study") is a hypothetical example used for illustrative purposes in order to provide a perspective of how various rebalancing methodologies could impact performance over various historical periods. The results of the Rebalancing Study are not meant to represent any portfolio managed by Mason Investment Advisory Services, Inc. ("MIAS") and does not reflect actual investment results of any portfolio managed by MIAS. The performance does not reflect actual trading or the effect of material economic and market factors on the decision-making process. Returns for the Rebalancing Study were generated from Morningstar Direct. More information about the model and assumptions used in the Rebalancing Study is available upon request.

MASON INVESTMENT ADVISORY SERVICES, INC.
11921 Freedom Drive, Suite 1000, Reston, VA 20190 | masoncompanies.com | (703) 716-6000