

INVESTOR CHALLENGE

Spinning Cash into Customized Fixed Income

Direct indexing helps investors build customized laddered bond SMAs that can meet their unique needs from inception to maturity.



How can investors generate returns from low-yielding cash accounts without sacrificing liquidity?

INVESTOR: Midsize business owner | \$50 million cash account yielding < 0.5% | Focused on credit quality

CHALLENGE

The client hoped to maintain a cash cushion for their business while positioning their portfolio for improved yields. Their advisor, a multifamily office with \$2 billion in AUM, recommended a laddered bond strategy, which systematically reinvests the proceeds from maturing bonds into longer maturities that typically have higher yields. This dynamic strategy can provide predictable income without increasing investor exposure to interest rate risk and fluctuating returns.

SOLUTION

The client directed their advisor to monitor the new laddered bond portfolio for events that could compromise its credit quality. They worked together to customize the portfolio according to the client's criteria:

Maturity	One to three years
Credit quality	AA or better
State preference	Georgia preferred
Target yield	2% to 3%

For illustrative purposes only. There is no guarantee that the investment objective will be achieved. The targeted return is hypothetical and should not be relied on to make investment decisions. The targeted return is aspirational in nature and is not based on criteria and assumptions. All investments are subject to the risk of loss. See disclosures for additional information.



FACT

Fixed income direct indexing doesn't aim to mimic bond indexes, the way equity direct indexing does. It's impossible for direct indexing providers to match the exact constituents of any bond index. Instead the goal is to provide investors with fixed income exposure while achieving consistent and customized objectives. However, fixed income direct indexing does offer the same powerful customizations as its equity counterpart, including year-round active tax management, responsible investing criteria, and more.

Parametric's large broker-dealer network, proprietary technology, and in-house team of analysts provide efficient and cost-effective fixed income portfolios for all client types.

10+ Years of average manager tenure

24 Fixed income professionals

\$47.B Fixed income AUM

As of 12/31/2022

Learn more about Parametric's [direct indexing solutions](#).

[Contact your Parametric representative](#) to get started with direct indexing.

About

Parametric Portfolio Associates® LLC ("Parametric"), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative, and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay, and centralized portfolio management. Parametric is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley, and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York, and Westport, Connecticut.

Disclosures

This material may not be reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

This information is intended solely to report on investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Past performance is not indicative of future results. The views and strategies described may not be suitable for all investors. Investing entails risks, and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric and Morgan Stanley do not provide legal, tax, or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein.

Charts, graphs, and other visual presentations and text information were derived from internal, proprietary, or service vendor technology sources or may have been extracted from other firm databases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources, including, but not limited to, Bloomberg, MSCI/Barra, FactSet, or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any third party.

There is no assurance that a separately managed account ("SMA") will achieve its investment objective. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. Market values can change daily due to economic and other events (natural disasters, health crises, terrorism, conflicts, social unrest, etc.) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (portfolio liquidity, etc.) of events. Accordingly, you can lose money investing in an SMA.

An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads, and a lack of price transparency in the market. As interest rates rise, the value of certain income investments is likely to decline. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of nonpayment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer's ability to make principal and interest payments. While certain US government-sponsored agencies may be chartered or sponsored by acts of Congress, their securities are neither issued nor guaranteed by the US Treasury. Mortgage- and asset-backed securities are subject to credit, interest rate, prepayment, and extension risk. Derivative instruments can be used to take both long and short positions, be highly volatile, result in economic leverage (which can magnify losses), and involve risks in addition to the risks of the underlying instrument on which the derivative is based, such as counterparty, correlation, and liquidity risk. Diversification does not guarantee profit or eliminate the risk of loss.

Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. Prospective investors should consult with a tax or legal advisor before making any investment decision.

The views expressed in this report are those of the authors and are current only through the date stated at the top of this page. These views are subject to change at any time based on market or other conditions, and Parametric disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions are based on many factors, may not be relied on as an indication of trading intent on behalf of any Parametric strategy. This commentary may contain statements that are not historical facts, referred to as "forward-looking statements." The strategy's actual future results may differ significantly from those stated in any forward-looking statement, depending on factors such as changes in securities or financial markets or general economic conditions.

All contents ©2023 Parametric Portfolio Associates® LLC. All rights reserved. Parametric Portfolio Associates® and Parametric® are trademarks registered with the US Patent and Trademark Office and certain foreign jurisdictions.

Parametric is headquartered at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, or to request a copy of Parametric's Form ADV or a list of composites, contact us at 206 694 5500 or visit www.parametricportfolio.com.