

PREPARED FOR:

**Sandra M. Fremont**

CONSULTANT:

Fairview Advisory Group

ANALYSIS DATE:

Sample

TARGET INDEX:

S&P 500

## About Parametric

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. Parametric and its affiliate, Parametric Risk Advisors, offer a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., global Tax-Managed Core™), options strategies (DeltaShift™), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

Investors choose to invest in a Parametric Tax-Managed Core portfolio in order to seek a combination of diversification, predictable performance relative to a target benchmark, and active tax-management. Many investors who consider a Tax-Managed Core portfolio are currently invested in a portfolio containing appreciated securities. For these investors, transitioning into a Tax-Managed Core portfolio requires careful consideration of the costs that may arise from capital gain realization.

This report describes some of the potential costs and benefits of transitioning an investor's current portfolio into a Parametric Tax-Managed Core portfolio. An analysis has been performed in which Parametric created a Tax-Managed Core portfolio from current holdings while considering important characteristics—market value, cost basis, unrealized gains/losses, specific stock and industry exposures, etc. Parametric's objective is to diversify the current holdings relative to the target index at the lowest possible tax cost.

A glossary on page 4 explains terms used within this analysis.

## Parametric Tax-Managed Core Portfolios Are:

- ▶ Broadly diversified
- ▶ Actively tax-managed
- ▶ Customized
- ▶ Separately managed accounts

## Parametric

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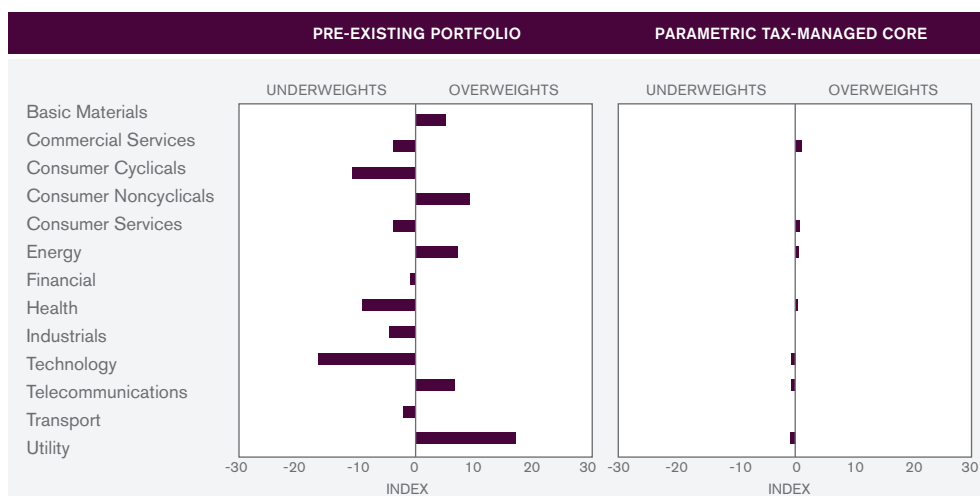
**TARGET INDEX: S&P 500**

The S&P 500 is a market-value weighted index consisting of 500 stocks chosen for market size, liquidity and sector. Majority of the companies in the index are mid-to large-cap corporations. The index provides a broad snapshot of the overall U.S. equity market. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. It is not possible to invest directly in an index.

**PORTFOLIO CHARACTERISTICS**

The existing portfolio was evaluated and compared to the Target Index. The risk factors below are important determinants of a portfolio's potential variability. If some, or all, of these risk factors differ from the Target Index, the portfolio's performance will deviate from the Index. The "tracking difference" quantifies the impact of risk factors and estimates how far the portfolio is likely to deviate from the Index each year.

|                               | PRE-EXISTING PORTFOLIO | S&P 500 INDEX | PARAMETRIC TAX-MANAGED CORE |
|-------------------------------|------------------------|---------------|-----------------------------|
| Total Portfolio               | \$3,893,147            | –             | \$3,893,147                 |
| Securities Value              | \$3,849,839            | –             | \$3,861,880                 |
| Cash Value                    | \$43,308               | –             | \$31,267                    |
| Cost Basis                    | \$2,845,520            | –             | \$3,152,888                 |
| Number of Securities          | 326                    | 500           | 250                         |
| Beta                          | 1.16                   | 1.00          | 1.00                        |
| Dividend Yield                | 1.71                   | 1.80          | 1.86                        |
| Weighted Avg. Cap. (millions) | \$58,533               | \$86,326      | \$89,431                    |
| Price/Earnings                | 21.0                   | 19.6          | 20.0                        |
| <b>Tracking Difference</b>    | <b>3.17%</b>           | <b>–</b>      | <b>1.05%</b>                |



Portfolio characteristics and weightings are as of analysis date and are subject to change. See page 3 for important information and disclosure.

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**PORTFOLIO TRANSITION – TAX ASSESSMENT**

**TARGET INDEX: S&P 500**

The tables below present estimates of the tax impact of two alternatives: (1) Fully liquidating the current portfolio. Full liquidation may be required by alternative investment strategies. (2) Creating a Parametric Tax-Managed Core portfolio out of current holdings.

By optimizing current holdings to minimize taxes incurred, Parametric can often create significant tax savings during a portfolio transition.

| FULL LIQUIDATION OF PRE-EXISTING PORTFOLIO           |                  |                | TRANSITION TO PARAMETRIC TAX-MANAGED CORE |                 |                |
|--|------------------|----------------|---|-----------------|----------------|
|  |                  | % OF PORTFOLIO |   |                 | % OF PORTFOLIO |
| Unrealized Gains                                     | \$1,094,701      | 28.1%          | Proposed Realized Gains                   | \$379,101       | 9.7%           |
| Unrealized Losses                                    | \$90,382         | 2.3%           | Proposed Realized Losses                  | \$83,775        | 2.2%           |
|  |                  |                | No. of Securities Sold (all or part)      | 225             | –              |
|  |                  |                | No. of Securities Bought                  | 108             | –              |
|  |                  |                | Proposed Turnover                         |                 |                |
|  |                  |                | - Buys                                    |                 | 43.1%          |
|  |                  |                | - Sells                                   |                 | 42.8%          |
| <b>Liquidation Tax cost</b>                          | <b>\$167,875</b> | <b>4.3%</b>    | <b>Transition Tax cost</b>                | <b>\$40,193</b> | <b>1.0%</b>    |
| <b>Potential Parametric Transition Tax Savings*:</b> |                  |                | <b>\$127,681</b>                          |                 |                |
| <b>Risk Reduction</b>                                |                  |                |   |                 |                |
| - Beginning Tracking Difference: 3.2%                |                  |                |   |                 |                |
| - Ending Tracking Difference: 1.0%                   |                  |                |   |                 |                |

\*This is the difference between the Liquidation Tax Cost and the Transition Tax Cost

Note: This information is for illustrative purposes only and should not be considered investment advice or a recommendation to buy or sell any particular security. The views and strategies described may not be suitable for all investors. While every effort has been made to verify the information, we make no representations as to its accuracy. For this analysis, the following federal margin tax rates were used: Short Term: 35%, Long Term: 15%.

The computation of the potential transition tax cost assumes that losses realized can be used to offset gains of like duration either within or outside of a portfolio. Actual portfolio and tax estimates will change with fluctuations in market prices and portfolio holdings. The results of implementing an actual portfolio transition may differ from the estimates presented here. Actual tax rates and taxes incurred may vary. Investors are advised to consult a tax advisor with regard to the particular tax impact of any investment. Securities which cannot be priced or modeled in our systems may have been excluded. This analysis illustrates the effect of the transition of a hypothetical pre-existing portfolio into a more diversified portfolio to be managed as an account in the style defined as the Parametric Tax-Managed Core. The analysis is meant to show the tax-efficiency of such a transition compared with the liquidation of the pre-existing portfolio and subsequent opening of the Parametric managed account with the cash proceeds. Actual client experience and results of a particular portfolio transition will vary based upon portfolio holdings and cost basis. This analysis assumes several factors that are necessary to calculate potential tax savings (e.g., holdings, cost basis). It does not take into account investment performance, actual trading, management fees and costs, and other holdings and related tax matters that could potentially affect tax savings. Such fees and costs would reduce the returns and savings shown. For a separate account, applicable management fees are described in Part II of Form ADV, which is available upon request. For example, a separately managed Parametric Tax-Managed Core account in this style with a value of \$1 million -- the investment management fees would be 0.45% per annum. An account growing at an annual rate of 8% for a 7 year period -- subject to such fees would produce a 7.55% annualized return. The returns experienced by a particular client will be different from those shown above. The Target Index is unmanaged and does not incur management fees, transactions costs or other expenses associated with separately managed accounts in these styles. No representation is being made that any particular client's account will achieve the tax savings shown. The results are not indicative of the experience of any particular Parametric client or investment portfolio. It is not possible to directly invest in an Index. Past performance does not predict future results.

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## GLOSSARY

### BETA

A measure of security or volatility relative to the index. A beta greater than 1.0 indicates greater volatility than the index; a beta less than 1.0 indicates lower volatility than the index.

### COST BASIS

Security value used to determine capital gain or loss. Most commonly purchase price plus transaction costs. The date of purchase will determine short term (less than 1 year) or long term tax treatment.

### DIVIDEND YIELD

The annual dividends paid by the portfolio divided by the portfolio value.

### LIQUIDATION TAX COST

An estimate of the tax cost that would be incurred if all securities in the portfolio were liquidated. Mutual funds and many investment managers require the liquidation of existing holdings before investing.

### REALIZED GAINS/LOSSES

The sum of all sales proceeds less the cost basis of the liquidated securities.

### TRACKING DIFFERENCE

A statistical measure that predicts how closely a portfolio is expected to mimic or “track” its index. In building a tax-efficient portfolio, it is usually not desirable to perfectly replicate an index. Tracking difference is an annual measure expressed as one standard deviation.

### TRANSITION TAX COST

An estimate of the tax cost that would be incurred by a Parametric tax-aware transition of the current portfolio into a Parametric Tax-Managed Core Portfolio.

### TURNOVER RATE

Buys – Market value of buys divided by portfolio market value.  
Sells – Market value of sells divided by portfolio market value.

### UNREALIZED GAINS/LOSSES

Current market value of a portfolio less its cost basis. It measures the appreciation or depreciation of a security or portfolio since its initial purchase date. A gain (or loss) is realized when the securities are sold.

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