

PARAMETRIC PERSPECTIVES

NEWSLETTER

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NEWSLETTER HIGHLIGHTS

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► Structured Emerging Markets - A Ten Year Retrospective

by Brian Dillon, Emerging Markets Portfolio Manager

June 30, 2008 marked an important ten-year milestone for Parametric's unique approach to investing in the emerging markets.

In the mid-nineties, a well-informed investor approached Parametric with a daunting challenge: was there a way to construct a portfolio to provide long-term, diversified exposure to this asset class while minimizing political, economic or liquidity risks? The investor was intrigued by the growth potential that emerging markets seemed to offer, yet mindful of the inherent risks. Out of this challenge grew one of Parametric's most exciting innovations: the Structured Emerging Markets Strategy. Now, more than 10 years later, our strategy continues to expand and evolve while delivering exceptional risk-adjusted results.

Our first research response to the query was to evaluate the cap-weighted market benchmarks. It was dramatically clear then, as it remains clear today, that index investing meant accepting significant country concentration risk. In 1998, the top 5 countries represented 64% of the MSCI Emerging Markets Index, today the percent is 66%.

An intuitive risk also clearly observed was absolute volatility. As one might suspect, volatility is a hallmark of the emerging markets with economic and geopolitical factors causing dramatic swings in returns. Could the low level of correlations between countries be used to help dampen the corrosive effects of these high levels of volatility? Could a process be implemented to not only insulate these risks through a diversified solution, but capitalize on them?

These questions, and the discussions that followed, led to the process used today in Parametric's Structured Emerging Markets Strategy. A portfolio was designed that assigned countries to tiers based upon market cap and liquidity, providing a meaningful solution to the concentration risk. Then, a systematic rebalance trigger was put in place to initiate rebalancing within the portfolio when countries reached a significantly overweighted position. This allowed a rebalancing premium to be captured by capitalizing on embedded volatility while keeping concentrations from building up in the portfolio.

PERFORMANCE AS OF 6/30/08

	SEM EQUITY COMPOSITE (%)	S&P IFCI INDEX (%)	MSCI EM INDEX (%)
Inception (Annualized since 6/30/98)	20.45	16.66	15.51
5 Year	34.22	31.05	30.15
3 Year	30.31	28.16	27.52
1 Year	4.57	3.60	4.89
Year to Date	-9.58	-12.24	-11.64
Quarter to Date	-2.06	-1.10	-0.81
Month to Date	-8.14	-10.01	-9.96

RETURNS-BASED CHARACTERISTICS 10 YRS ENDING 6/30/08

	SEM EQUITY COMPOSITE	S&P IFCI INDEX	MSCI EM INDEX
Alpha	6.64 %	--	--
Beta	0.84	1.00	1.00
R-Squared	0.94	1.00	1.00
Standard Deviation	20.54 %	23.39%	23.54 %
Tracking Error	6.29 %	--	--
Information Ratio	0.83	--	--
Sharpe Ratio	0.83	0.56	0.50

SEM Strategy AUM (6/30/08):
\$2.9 Billion USD

SEM Strategy Established:
1994

Celebrating 10 Years

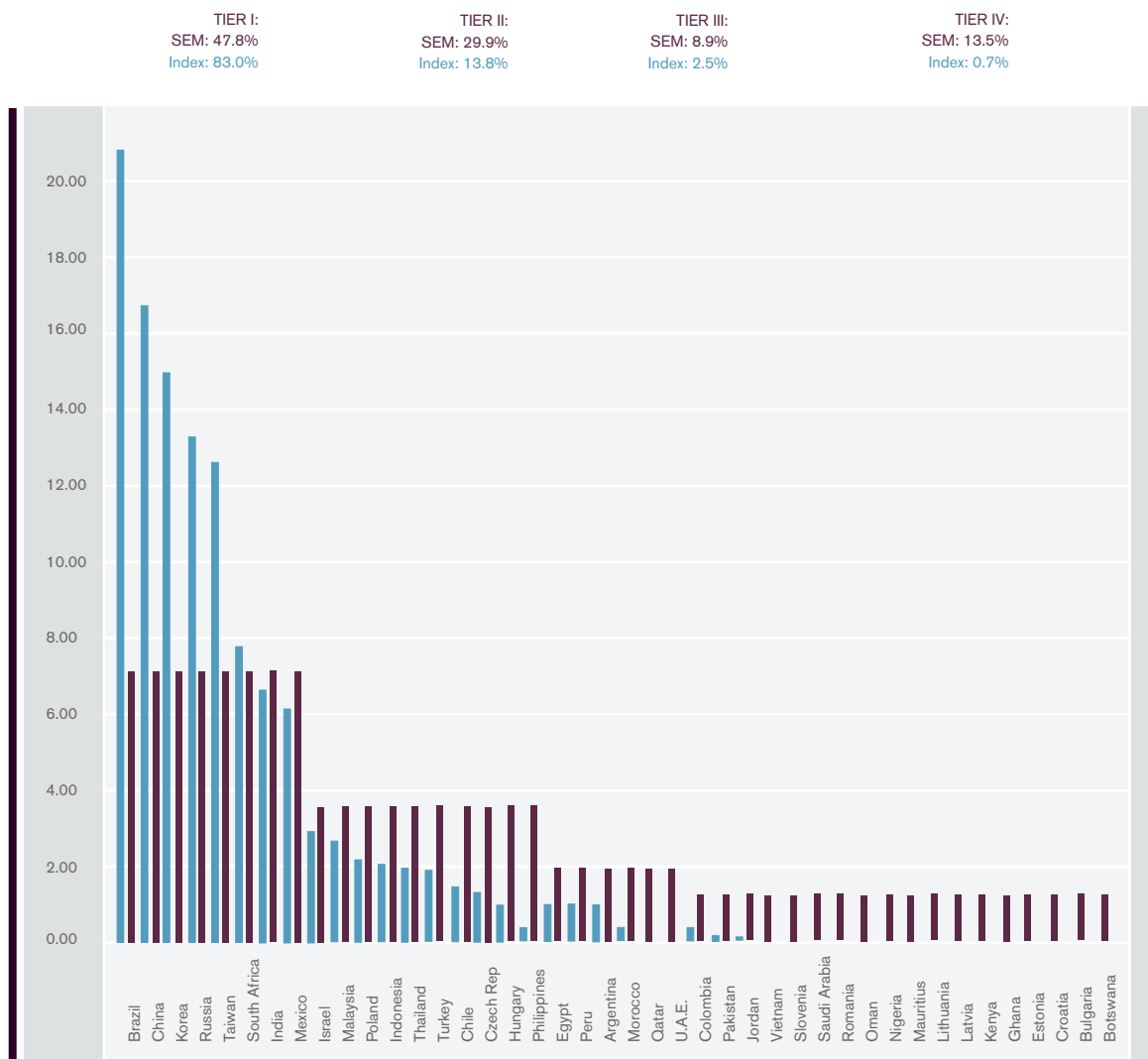
June 30, 2008 marks the 10th anniversary of the Eaton Vance Structured Emerging Markets Master Composite - a composite audited and verified to be in compliance with the Global Investment Performance Standards (GIPS). This composite is comprised of Parametric-managed, Structured Emerging Markets accounts.

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Structured Emerging Markets continued...

COUNTRY WEIGHTINGS -STRUCTURED EMERGING MARKETS MODEL PORTFOLIO



Emerging markets have now become a strategic and permanent part of serious investors' asset allocations. While some emerging markets investment characteristics have changed in the past decade, the opportunities for growth remain, and the number and magnitude of risks still create concern. For example, concentration risk and volatility remain high, liquidity in individual countries ebbs and grows, and shifting political and economic environments are constant challenges.

As this asset class has both evolved and remained the same, so too has Parametric's strategy and our implementation of the investment process. Initially investing across 21 countries separated into two tiers, our process has expanded into a four tier approach, spanning 42 developing and frontier countries.

What began as a research question more than a decade ago is now celebrating an important ten-year anniversary. This record, with a consistent set of relative performance attributes,

shows that there is indeed a method available for investing in the emerging markets in a thoughtful, risk-controlled manner.



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► Tax-Managed Core in a Higher Tax Rate Environment

by Hemambara Vadlamudi, Research Manager

There is a lot of uncertainty going into the 2008 federal election, but one thing seems clear: tax rates will probably go up. The government's need for additional revenue—to fund the military, Medicaid, Medicare, and the expanding US debt—puts the current tax policy in flux regardless of whether Democrats or Republicans win. Not only are many tax cuts scheduled to expire at the end of 2010, but it is clear that in 2009 the new Congress will start reviewing, and perhaps change significantly, the sections of the tax code that have guided investor decisions for the past five years. It seems unlikely that Congress will simply extend the sunset provision or make the tax cuts permanent; in fact, we see a clear possibility of a capital gains tax rate increase.

Tax rates on long-term capital gains are at their lowest since 1933. Congress cut tax rates with the 2003 tax legislation, but these rates are set to expire on December 31, 2010.

TABLE 1:
TAX RATES (%)

	CURRENT RATE	SUNSET RATE
Dividends	15.0	39.6
Long-term Capital Gains	15.0	20.0
Short-term Capital Gains	35.0	39.6
Ordinary Income and Interest	35.0	39.6

With this outlook, investors should be asking how their investment portfolios will fare in higher tax-rate environments.

To understand the impact of higher taxes on our Tax-Managed Core portfolio, we ran simulations using an S&P 500-like universe. In

each case, we simulated the average (or what we might expect to achieve each year) from a loss harvesting program. We randomly generated a 10-year scenario of market-average movements from a normal distribution; then, for each scenario, we simulated a portfolio of stocks, each having a sequence of returns with the appropriate volatility of excess return around the market average. We assumed each universe—in this case we are looking at an S&P 500-like universe—has a “natural” turnover (turnover due to reconstitution) per year.

We simulated a tax-managed portfolio over a ten-year period by harvesting losses four times a year. For each column of the table, we performed 1000 such scenario simulations. The 1000 simulations gave us a distribution of harvesting opportunities. We measured these returns after taxes relative to an investment in a portfolio fully replicating the index.

We use the term “Tax Alpha” to mean the value added by active tax management -- the after-tax excess return minus any pre-tax excess returns. Table 2 shows the tax alpha in the current and sunset tax rate environments. We have run simulations with alternative tax rate assumptions (see June 2008 Research Brief “Simulating Loss Harvesting Opportunities under Different Tax Environments”). Please contact us for a copy.

Not surprisingly, the table shows that the tax alpha is higher using the sunset tax rates for all market return environments. The tax benefit is higher in the bear markets than in the bull markets: overall losses in the portfolio are much higher in a lower market rate environment and an increase in the tax rates will have a greater effect in a bear market environment.

Reduced tax bills can take the gloom from the cloudy market conditions we are facing. Higher tax rates means managing for taxes will be even more critical going forward.

TABLE 2:
TAX ALPHA FOR CURRENT TAX RATES AND SUNSET TAX RATES

Market Return (%)	-2.00	0.00	2.00	4.00	6.00	8.00	10.00	12.00	14.00
Tax alpha in the current tax-rate environment	2.11	1.88	1.70	1.52	1.38	1.25	1.14	1.05	0.98
Tax alpha in the sunset rate environment	2.44	2.17	1.95	1.74	1.57	1.41	1.28	1.17	1.08
Difference	0.33	0.29	0.25	0.22	0.19	0.16	0.14	0.12	0.10



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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 (Delta-Shift™), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

Total AUM (6/30/2008):

\$27.7 Billion*

*This figure represents the combined AUM of Parametric and its affiliate Parametric Risk Advisors.

Established:

1987

► Q2 2008 Market Commentary

by Tom Seto — Director of Portfolio Management



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Domestic

US equities rallied much of the second quarter, but optimism was premature as skyrocketing oil prices and accelerating inflation weighed on markets. The S&P 500 Index finished the quarter down 2.7%. Financials were hammered again, down 18.3%, now losers four quarters in a row. Financial services stocks have lost almost half their value in the past 12 months. On the flip side, energy stocks continued to soar, up 17.3% for the quarter, bolstered by record-setting oil prices surpassing \$140/barrel. Growth outperformed value (S&P 500/Citigroup Growth Index, 2.1%; S&P 500/Citigroup Value Index, -7.8%), as investors moved away from the financial and cyclical stocks that dominate the Value Index. Mid-cap and small-cap stocks were in positive territory for the quarter (S&P MidCap 400 Index, 5.4%; S&P SmallCap 600 Index, 0.4%). Looking forward, the market faces the obstacles of rising interest rates, fragile credit markets, slowing growth and accelerating inflation. Consumer confidence is at a 16-year low and housing prices posted their largest year-over-year decline on record. Furthermore, the meteoric rise in oil prices threatens the purchasing power of consumers and corporations. Among this uncertainty, our broadly diversified, sector-neutral Tax Managed Core portfolios seek to provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

International

International markets started the quarter in positive territory, but ended lower as inflation worries surfaced. The MSCI EAFE Index was down 2.25% and the emerging markets MSCI EM Index was down 0.86% for the quarter. In developed markets, weakness across Europe dragged down returns as economic activity slowed and the ECB talked of raising rates. Japan's 2.5% return was a bright spot as inflation seems to be less of a threat. Financials were again the worst performing sector, down 11% while energy stocks, up 17%, contributed most positively. In emerging markets, Asia led the index lower as India (-20%), Taiwan (-11%) and Korea (-8%) contributed significantly to the downside. Energy and commodity rich nations such as Brazil (18%) and Russia (11%) contributed most positively bringing returns to almost flat for the quarter. Looking forward, fear of inflation takes center stage as central bankers around the world turn hawkish and increase rates.

Disclosures

Parametric is a majority owned subsidiary of Eaton Vance Corporation. Returns reported herein are preliminary and may be subject to change at anytime. This information is intended solely to report on investment strategies and opportunities identified by Parametric Portfolio Associates. 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. References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Please note that investments in foreign securities and markets pose different and possibly greater risk than those customarily associated with domestic securities, including currency fluctuations, foreign taxes and political and economic instability.

Past performance is no guarantee of future results. Performance presented gross of investment advisory fees represents the investment performance record for a size-weighted composite of similarly managed, unconstrained discretionary accounts. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on the size of a portfolio and applicable fee schedule. Fee information described in Part II of Parametric's Form ADV is available upon request.

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Sources: Bloomberg, Standard and Poor's International Financial Corporation Investable Index and MSCI Emerging Markets Index. This information is for illustrative purposes only, is subject to change at any time and should not be considered investment advice or a recommendation to buy or sell any particular security. The information is based upon the total assets of all fee-paying discretionary accounts comprising the Structured Emerging Markets Equity Master Composite as of 06/30/08. Gross returns for the Composite are calculated in U.S. dollars, include the reinvestment of distributions, and are after transaction costs, any foreign withholding taxes and other direct expenses, but before management fees, custody charges and other indirect expenses. Such fees and expenses would reduce the results shown. MSCI Emerging Markets Index "Net Dividends" is defined as: This series approximates the minimum possible dividend reinvestment. The dividend is reinvested after deduction of withholding tax, applying the rate to non-resident individuals who do not benefit from double taxation treaties. It is not possible to directly invest in an index.