

## STRUCTURED COMMODITY: A Disciplined Approach to Commodity Investing

### Timothy Atwill, CFA, PhD, FCAS

Senior Research Analyst

#### INVESTMENT STRATEGY:

- Seeks to avoid the concentrations that occur in mainstream commodity indices by investing broadly across commodity types and sectors.
- Maintains target weightings and allocation through regular rebalancing, in order to get a broad, long-only representation of all commodity sectors.
- Remains aware of implicit and explicit trading costs, so the benefits of the commodity asset class accrue to the investor.

#### ABOUT PARAMETRIC:

- Investment advisor based in Seattle, Washington
- Leader in structured portfolio management
- More than 20 years' experience specializing in structured portfolio management
- 92% ownership by Eaton Vance Corp

In recent years, commodity investing has moved from being exotic to commonplace. The benefits being sought typically include diversification and protection against inflation. However, individual investors face significant risks and volatility when investing in this asset class.

The problem is compounded by the weaknesses of most mainstream commodity benchmarks. Material concentrations exist at the individual commodity and sector levels. Furthermore, the construction rules are so explicit that more experienced investors exploit the recognizable buying and selling patterns of indexed money to the detriment of the end investor.

The Eaton Vance Structured Commodity strategy follows a rules-based investment process developed by Parametric, a leader in structured portfolio management. Parametric has more than 20 years' experience specializing in global asset management and has more than \$30 billion in total assets under management.

Parametric's investment philosophy is based on mathematical principles of diversification, compounded growth, and volatility capture. The strategy seeks to add value through portfolio construction and rebalancing among individual commodities, while maintaining the diversifying and inflation fighting characteristics which make the asset class so appealing.

#### THE PARAMETRIC APPROACH

1. Avoid Concentration	2. Systematic Rebalancing	3. Reduce Frictional Costs
<p>Create commodity target weights that avoid concentration risk at the contract and sector level:</p> <ul style="list-style-type: none"> <li>▪ Target weights are calculated using a mathematical rule that avoids the concentrations present in many benchmarks.</li> <li>▪ Duplicative or highly correlated commodities are removed.</li> <li>▪ Diversification across commodity sectors (e.g. energy, grains, precious metals) allows exposure to future price increases regardless of where they originate.</li> </ul>	<p>As commodity and sector concentrations build up, rebalance:</p> <ul style="list-style-type: none"> <li>▪ The amount of "rebalancing alpha" captured depends on the correlation and volatility of the underlying assets.</li> <li>▪ Rebalancing exploits the tremendous volatility of commodities by systematically selling when prices go up and buying when they go down.</li> <li>▪ Low correlations between commodities increases potential rebalancing opportunities.</li> </ul>	<p>Trade commodity portfolios efficiently, reflecting the unique nature of this market :</p> <ul style="list-style-type: none"> <li>▪ Rebalancing triggers are set sufficiently wide to avoid excessive trading costs.</li> <li>▪ Construct trading rules which take advantage of passive mandates, but which are flexible enough to avoid prediction by third parties.</li> <li>▪ Rolling of positions provides a "free" opportunity to rebalance to target weights.</li> </ul>

#### Parametric

1151 Fairview Avenue N.

Seattle, WA 98109

T 206 694 5575

F 206 694 5581

www.parametricportfolio.com

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