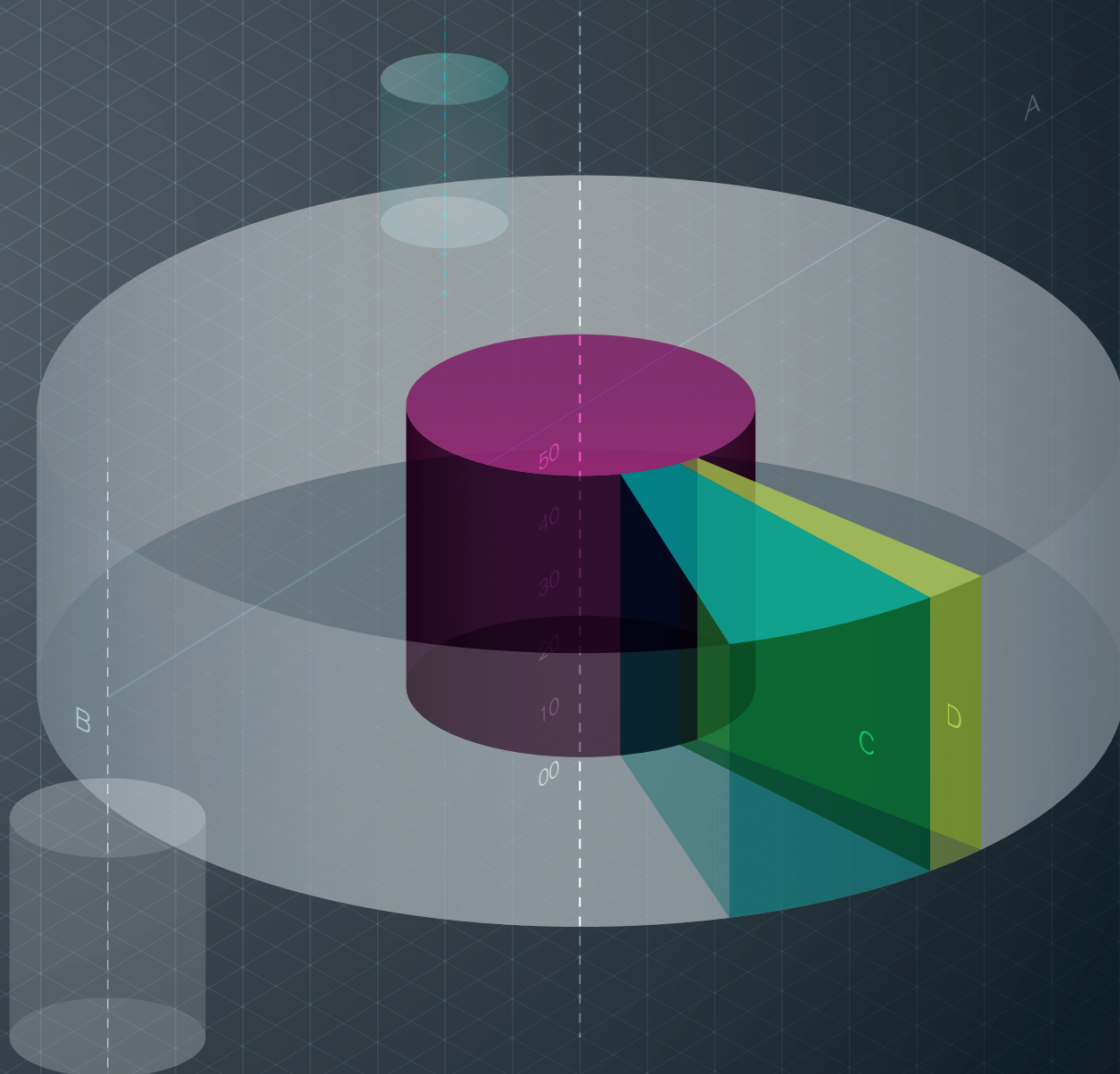


# CORE STRENGTH.

Parametric Structured Tracking /  
Tax-Managed Core™



“Once you view the world through the prism of  
after-tax performance, you see things differently.”

**Brian Langstraat**  
*Chief Executive Officer*

# CAN BORING EQUAL BRILLIANT?

/Can simple and straightforward equal success?

## CONSIDER THE FOLLOWING CLAIMS:

- > Equity markets are reasonably efficient—out-performance is difficult and hard-won.
- > Taxes matter—they can be the biggest cost a private investor faces.
- > Private clients have unique needs—and may benefit from a customized portfolio.

## DO YOU AGREE?

Most would acknowledge these observations are correct, possibly conventional—maybe even a bit dull. But the fact is, they are powerful truths. And when leveraged intelligently, they open the door to an investment strategy that seeks consistent performance and tax efficiency in a customized account—powerful investment benefits that are far from boring!

## Tax-Managed Core—the best of both worlds

### THE CONSISTENT PERFORMANCE AND DIVERSIFICATION OF INDEX-BASED INVESTING WITH ACTIVE TAX MANAGEMENT AND CUSTOMIZATION.

- > An index-based account with tax-management? **Yes.**
- > A custom separate account providing “core” exposure? **Yes.**
- > A natural complement to active “satellites”? **Yes.**
- > A useful tool in dealing with private client issues like social restrictions, low-basis stocks, and charitable gifting strategies? **Absolutely.**

# MEASURING WHAT MATTERS

Costs and taxes can change everything—particularly for the high-net-worth investor. And what many advisors and their clients have come to realize is that simply measuring pre-tax performance is not good enough. Not when fees, taxes, transaction costs, and inflation can erode much, if not most, of your gains.

In the area of mutual funds, where public data is available, a recent Lipper research study showed that investors gave up—on average over the last 10 years—0.98 to 2.08 percentage points of return per year due to taxes alone.<sup>1</sup>

## Delivering Better Beta

Investors and their advisors increasingly seek core market exposure as they structure portfolios. Consistently capturing the performance and risk attributes of a given market or market segment (or “beta”) is important in delivering the benefits of asset allocation.

Index mutual funds and ETFs deliver index-tracking returns with low turnover, but as commingled investment vehicles, generally cannot be designed to accommodate an investor’s taxes or provide customization. Parametric’s Tax-Managed Core (TMC) portfolios represent a significant improvement—customized core exposure and a potentially lower tax bill.

1. Source: Lipper, Inc. Taxes in the Mutual Fund Industry—2010.

# HERE'S HOW IT WORKS

- 1/ TMC is a separate account portfolio built to replicate the performance of a client-selected index (or benchmark). It is composed of a subset of securities selected to reflect key characteristics of the target index. For example, an S&P 500–targeting portfolio may hold approximately 300 stocks that would align closely with the industry, sector, capitalization distribution, and other important factors of the index.
- 2/ By optimizing the portfolio to mirror the index and by maintaining individual ownership of each security, the Parametric TMC portfolio gives the investor crucial flexibility. The account can be built around pre-existing securities, capital losses can be harvested, and a variety of investor preferences may be incorporated. By accepting slight pre-tax performance differences versus the index, the TMC portfolio seeks to add significant after-tax value through delaying and avoiding taxes.
- 3/ Portfolio rebalancing is conducted systematically throughout the year whenever (i) portfolio risk versus its index exceeds guidelines, (ii) there are client contributions/withdrawals, or (iii) capital-loss harvesting or gain-management opportunities arise. In the case of loss harvesting, Parametric uses proprietary models and technology to realize capital losses when the tax benefit is material while keeping the portfolio closely aligned with its benchmark. Most importantly, realized losses can be used to offset gains from a variety of other sources: gains from other investment managers, rebalancing decisions, manager changes, or other capital transactions, such as the sale of real estate.
- 4/ Central to Parametric's TMC activity is responding to an investor's changing circumstances. Gifting and spending plans may be incorporated tax-efficiently, benchmark or preference changes may be implemented, and the portfolio may be structured to meet the particular needs of a trust or estate-planning vehicle.

# ADDING VALUE ALONG THE WAY

/At every stage of a portfolio's lifespan, TMC offers value.

## Stage 01

### PORTFOLIO INCEPTION

- > Analyze pre-existing holdings
- > Ensure all transitions are tax-aware
- > Avoid unnecessary liquidation and gain realization

Portfolio inception is a critical stage for the investor. By working closely with you, we make sure to secure any potential tax benefits, and respond to any other needs or concerns.

## Stage 02

### ONGOING MANAGEMENT

- > Actively manage risk and taxes
- > Avoid unnecessary gain realization
- > Harvest losses throughout the year
- > Respond quickly to tax law changes
- > Handle any contributions or withdrawals tax efficiently

With TMC, the portfolio is optimized for tax benefits throughout the year, not only at the end of the year. The process is constant and ongoing, and our technology helps us respond rapidly to change.

## Stage 03

### PORTFOLIO DISPOSITION

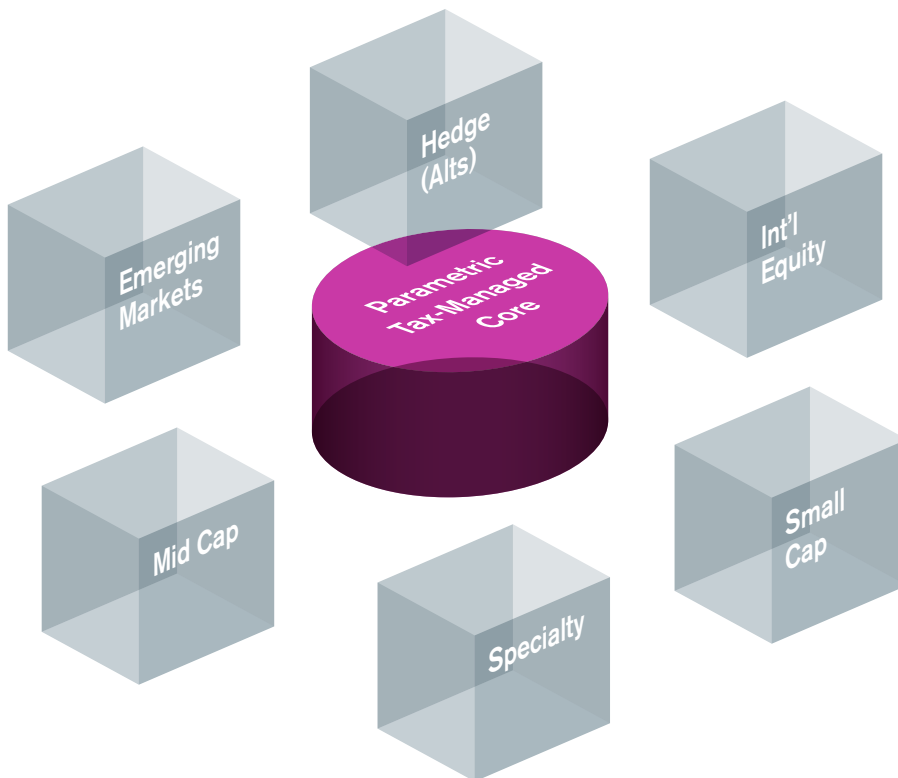
- > Actively manage risk and taxes
- > Minimize gain realization during partial redemptions
- > Target low-basis tax lots for gifting or disbursement

Handled appropriately, a portfolio disposition can avoid unnecessary costs, and deliver significant after-tax benefits.

# HERE'S WHERE IT FITS

Seasoned investors understand the importance of staying focused on the big picture. This is why many use a core and satellite approach to portfolio structure. Thoughtfully constructed, a core/satellite structure can cost-effectively deliver on the promise of a multi-manager asset allocation. Active risk budgeting, cash and security flow coordination, and overall tax management can be tailored to the individual investor.

TMC is more than a low-tax core portfolio. It is an investment building block that allows an investor to simplify and, at the same time, creates the flexibility to do more.



## A WELL-CONCEIVED CORE/SATELLITE STRUCTURE ALLOWS FOR:

- > **Reliable Market Exposure**  
The core allocation may track the desired market with consistency.
- > **Reduced Trading**  
Because of the significant allocation of assets to the low-turnover core, the frequent trading required for active management and rebalancing is reduced.
- > **Minimal Gain Realization**  
Tax management within the core may help lower and delay taxes for the overall portfolio.

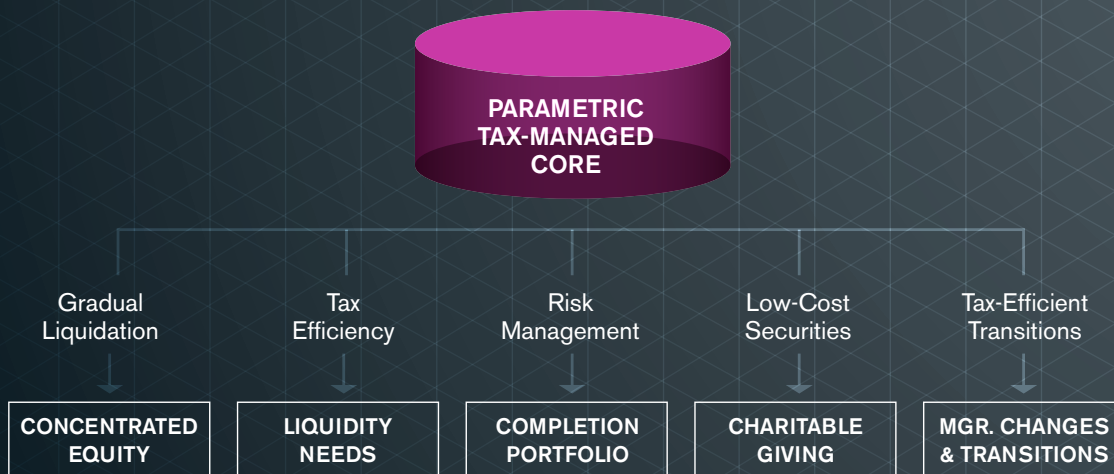
# CLIENT RESULTS...

Since our first taxable account in 1992, Parametric has pioneered tax-managed, index-based separate accounts. We have maintained extensive focus on this topic, building a leadership position in this product area.

Clients and prospects find comfort in our assets under management, number of accounts, length of track record, and breadth of investment mandates (standard and custom assignments). Since our beginnings in 1987, Parametric has witnessed almost every possible market condition: crashes, bull markets, bear markets, bubbles, recessions, expansions, and a variety of tax regimes. We've seen many different client situations, and responded with unique solutions. Our combination of experience, creativity, and focus is unique—and forms the foundation of our clients' trust.

## MULTIPLE FUNCTIONS FOR MULTIPLE NEEDS

Depending on individual circumstances and preferences, TMC can be used to address specific investor goals or issues related to overall portfolio risk, liquidity, and tax efficiency.



## Real-Life Examples<sup>2</sup>

### > A FAMILY LIMITED PARTNERSHIP DIVERSIFIES AND REALIZES SIGNIFICANT TAX SAVINGS

The client family was looking to diversify the patriarch's legacy holdings. Parametric transitioned a portfolio with appreciated securities into a TMC portfolio targeting the Russell 3000 Index, delivering tax savings versus liquidation at the time of initial investment.

### > RAISING CASH FOR A PRIVATE EQUITY INVESTMENT WITH NO NET-GAIN REALIZATION

Even though the portfolio was, on average, in an unrealized gain position, Parametric helped a client raise a large percentage of the portfolio's value for a private equity investment—with no net-gain realization while maintaining risk management to the target benchmark.

### > INTEGRATING WITH WEALTH-TRANSFER PLANNING: TMC IN A CRT

To reduce the tax impact of short-term capital gain distributions from a charitable remainder trust, Parametric worked with the advisor and other investment managers to manage the highly taxed short-term gains via loss harvesting, while still seeking to provide market-tracking performance.

### > A CUSTOM PORTFOLIO WITH A NON-STANDARD BENCHMARK

Parametric worked with its advisor client, who had a preference for U.S. multi-national companies, to design and build a custom Tax-Managed Core portfolio, benchmarked to a custom-constructed index of U.S. companies with significant foreign revenue.

## TMC OVERVIEW

By providing...	You may achieve...
<b>Separate Accounts</b>	Maximum flexibility—with the power to actively manage taxes, harvest losses, and customize holdings to an investor's needs and preferences.
<b>Core Market Exposure</b>	Consistent market-like returns—along with low-cost diversification, risk management, and low capital gain realization.
<b>Proprietary Technology</b>	Rigorous, daily monitoring of each portfolio—with the ability to quickly adjust to benchmark changes, garner a tax benefit, or respond to tax-law changes.
<b>Custom Analysis</b>	An individualized assessment of your portfolio—with insights on how to transition assets, optimize distributions, or lessen the impact of taxes and costs.
<b>Individualized Reporting</b>	Industry leading after-tax performance reporting with portfolio data that's easy to understand and that provides relevant information for the investor.

2. The above examples are not an indication of the experience of all Parametric clients. It should not be presumed that any strategies employed will be profitable or will equal the experience of the above examples.

# ...AND TRUE PARTNERSHIPS

Parametric is known for its focus on structured portfolio management—portfolios that emphasize consistency of results, transparency of process, and customization to the unique preferences of the investor. We are equally committed to service, and have developed unique tools that help us deliver custom solutions.

## BENCHMARK FLEXIBILITY<sup>3</sup>

Parametric builds tax-efficient, separate accounts that can be benchmarked to virtually any standard or customized index. Examples include:

Target Exposure	Example Index
Large Cap US	S&P 500 <sup>®</sup> , Russell 1000 <sup>®</sup>
Broad Cap US	Russell 3000 <sup>®</sup> , S&P 1500 <sup>®</sup>
International Equity	MSCI EAFE, MSCI World
Fundamental	FTSE RAFI, Enhanced RAFI
Style	Value/Growth, Small/Large, Defensive/Dynamic
Dividend-Focused	WisdomTree <sup>®</sup> , Dividend Achievers <sup>™</sup> , Dividend Tilt
Specialty Indexes	Alerian MLP, NASDAQ OMX Green Economy <sup>®</sup>
SRI/ESG	MSCI ESG, KLD Analytics, IW Financial

3. Note: Benchmark availability and account minimums will vary with custody and trading platform.

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. We offer a broad set of solutions—quantitative, rules-based approaches aimed at risk-managed outperformance, customized market capture strategies and options/hedging strategies designed to tailor a portfolio's risk/return profile.

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Parametric Portfolio Associates (“Parametric”) is a Seattle, Washington-based investment management firm providing separately managed accounts for high-net-worth investors with an emphasis on customized portfolios and risk management. Eaton Vance owns a majority interest in Parametric.

All accounts included in each Composite are fully discretionary and include only those accounts funded with cash and free from client-directed investment restrictions. Because Parametric manages each account to reflect client-specific characteristics, accounts funded with securities and/or subject to restrictions will experience varying performance. Individual client after-tax experience will vary according to each client's unique tax circumstances. In particular, it has been assumed that the client has, or will have sufficient capital gains from sources outside of this portfolio to fully offset any net capital losses realized, and any resulting tax benefit has been included in Parametric's computation of after-tax performance. Past performance does not predict future results.

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