

STRUCTURED CURRENCY: A Disciplined Approach to Global Currency Investing

Periods of loose monetary policy, wide trade deficits, and seemingly uncontrollable fiscal deficits have put a spotlight on a risk many US investors have never considered – a long-term decline in the US dollar. Such a decline would have serious ramifications for dollar-denominated assets. While many US investors have increased their cash holdings in response to the market events of 2008, some are now coming to the realization that being in cash provides little protection against a decline in their home currency.

INVESTMENT STRATEGY:

- Portfolio of equally weighted currency forwards which seeks to outperform while helping to preserve wealth against a long-term decline in the value of the US dollar.
- Global focus, with 40% exposure to developed country currencies and 60% exposure to emerging market currencies.
- Maintains target weights through regular rebalancing, in order to get a broad, long-only representation of the world's currencies.

ABOUT PARAMETRIC:

- Investment advisor based in Seattle, Washington
- More than 20 years' experience specializing in structured portfolio management
- 92% ownership by Eaton Vance Corp.
- \$41.2 billion in total assets under management as of 12/31/2011 (includes assets of Parametric Risk Advisors, a Parametric subsidiary).

The Eaton Vance Structured Currency strategy provides a solution for dollar-based investors concerned about a weakening dollar, and who seek to profit from exposure to a global basket of currencies. Our structured approach does not rely on any predictive ability of currency movements, but instead follows a rules-based investment process developed by Parametric, a leader in structured portfolio management.

Parametric's investment philosophy is based on the mathematical principles of diversification, compounded growth, and volatility capture. The strategy seeks to add value through portfolio construction and rebalancing among individual currencies. By holding a diversified exposure to a broad array of developed and emerging market currency forwards, there is the potential to generate outperformance while defending against a reduction in the relative value of the US dollar versus other currencies.

THE PARAMETRIC APPROACH

1. Avoid Concentration	2. Systematic Rebalancing	3. Reduce Frictional Costs
<p>Create currency target weights that avoid concentration risk:</p> <ul style="list-style-type: none"> ▪ Currencies are screened for market liquidity and correlation. ▪ Equal weights are assigned to each non-dollar currency. ▪ Diversification across developed and emerging markets combines the stability of developed currencies and the growth potential of emerging markets currencies. 	<p>As concentrations build up rebalance:</p> <ul style="list-style-type: none"> ▪ The amount of "rebalancing alpha" captured depends on the correlation and volatility of the underlying assets. ▪ Rebalancing exploits the large volatility of currencies by systematically selling when prices go up and buying when they go down. ▪ Low correlations between currencies increases potential rebalancing opportunities. 	<p>Trade currency portfolios efficiently, avoiding unnecessary costs:</p> <ul style="list-style-type: none"> ▪ Rebalancing triggers are set sufficiently wide to avoid excessive trading costs. ▪ Construct trading rules which take advantage of momentum characteristics of currencies, but are not beholden to them. ▪ Rolling of currency forward positions provides a "free" opportunity to rebalance to target weights.

DISCLOSURES

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