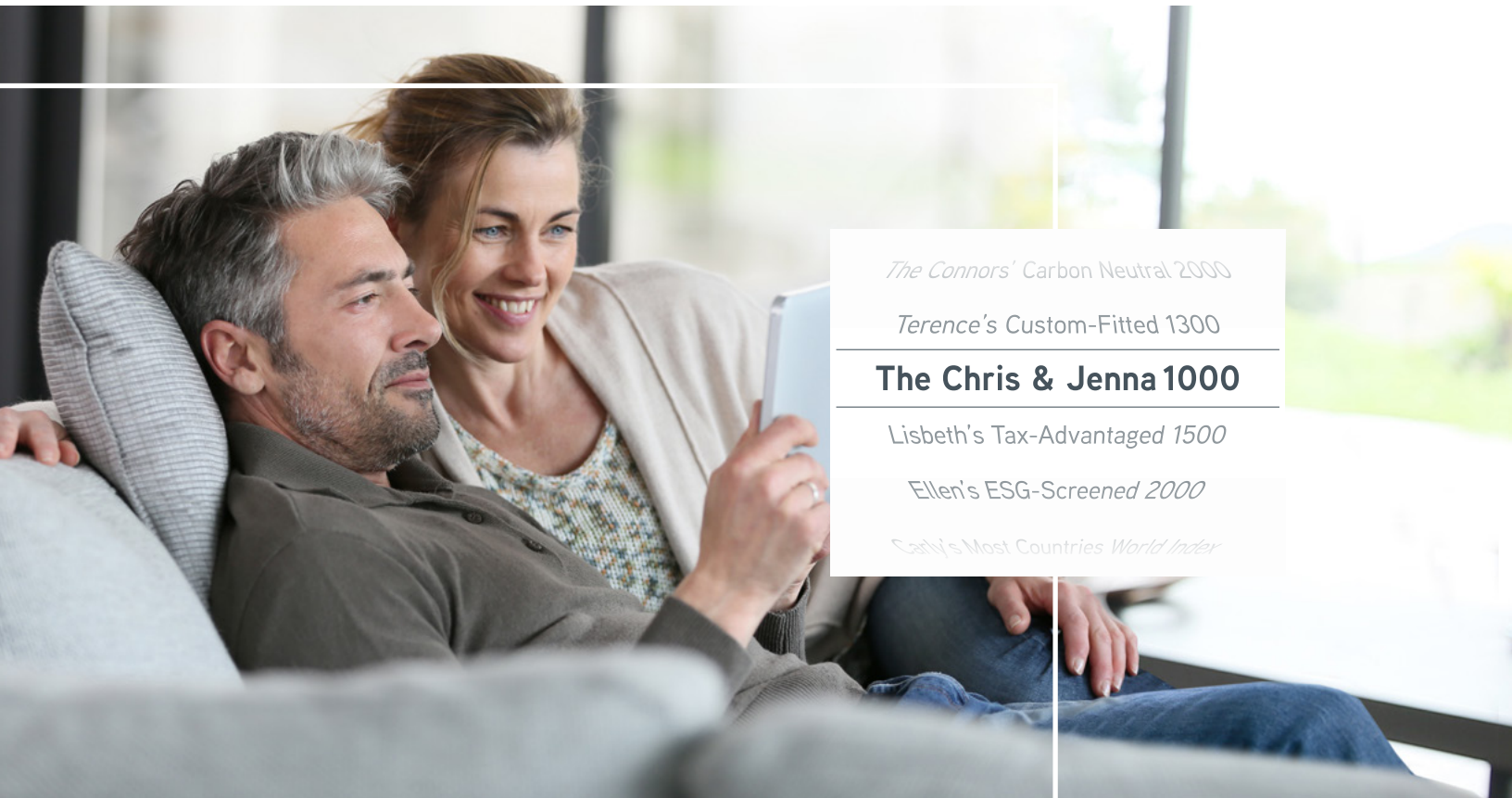


# Custom Core<sup>®</sup>

What if you could build your own index?



*The Connors' Carbon Neutral 2000*

*Terence's Custom-Fitted 1300*

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**The Chris & Jenna 1000**

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*Lisbeth's Tax-Advantaged 1500*

*Ellen's ESG-Screened 2000*

*Carly's Most Countries World Index*

Let's make passive investing personal<sup>™</sup>



**PARAMETRIC**

Custom to the core

B	200	49.75	▼
19C2011A S	70,000	0.26	▼
19C2010A S	140,000	0.17	▼
19C2010A S	2,000	0.17	▼
19C2010A S	50,000	0.17	▼
19C2010A S	1,125,300	0.17	▼
19C2010A S	38,000	0.17	▼
19C2010A S	100,000	0.17	▼
19C2010A S	100,000	0.24	▼
19C2011A S	5,000	0.24	▼
19C2011A S	10,000	0.42	▼
19C2011A S	50,000	0.42	▼
19C2011A S	1,500	0.42	▼
19C2011A S	1,000	0.42	▼
19C2011A S	50,000	0.42	▼
19C2011A S	4	0.42	▼
19C2011A S	100	3.37	◀▶
19C2011A S	100	85.00	▼
19C2011A S	24,800	85.00	▼
19C2011A S	2,000	3.2	▼

# Stop **compromising**

More and more people are discovering the benefits of passive, or index, investing. For many, passive investments form the core of their holdings, helping reduce overall portfolio risk by adding broader market exposure to complement the individual securities—the active holdings—they and their advisor have selected.

Passive investors often turn to exchange-traded funds (ETFs) that track an index—such as the S&P 500® or the Barclay’s US Aggregate, to name two of the best-known equity and fixed income indexes, respectively. For most investors, this is fine. They get all the stocks or bonds in that index, indirectly leaving the decision of what’s in their portfolios to the index provider.

But what if you’re not like most investors? What if you want passive exposure but don’t want to settle for someone else’s idea of what it should be? What if you want more control?

# Start **customizing**







Unlike an ETF, **Parametric Custom Core** is set up in a separately managed account, or SMA. When you invest in an ETF, you buy shares in that fund, and the fund holds the individual securities. In the case of a mutual fund, your investment may also be affected by other shareholders' decisions. However, in a Custom Core account, you own the securities directly.

This is often referred to as **direct indexing**. It's an approach that seeks index-like performance while also opening up a world of possibilities—for portfolio customization, for tax optimization, and for gaining direct exposure to hundreds or thousands of securities tailored around **what matters to you**.

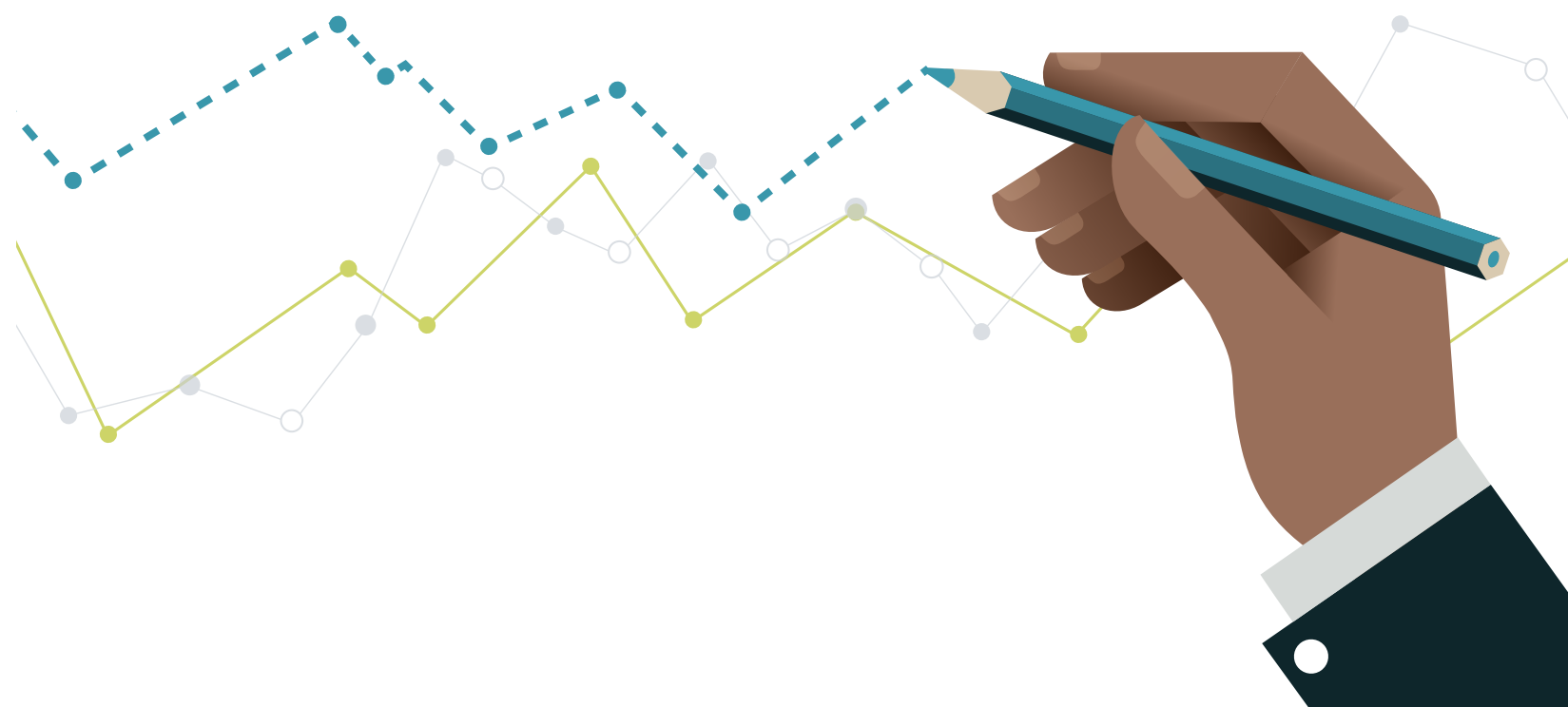
### Your investments, your benchmark

Custom Core is designed to provide exposure to a customized benchmark of your choosing. And there are dozens to choose from. Parametric can even combine benchmarks and help you customize how closely your portfolio follows them.

## Custom Core: **The index of you**

Investing is a personal choice. One investor may have strong convictions about the environment and not want to hold companies in the fossil fuel industry. Another may seek a portfolio with powerful tax advantages. Yet another may want the portfolio to emphasize certain types of securities, such as value stocks. And some may want all three of these things at once.

Usually, to put together a passive portfolio with one or more of these features, you'd have to buy multiple ETFs. As a result, you'd likely end up holding the same securities in more than one ETF, defeating the purpose of trying to invest more broadly and evenly in the market. **There's a better way.**



# Taxes

In investing, **they matter more than you might think**

Taxes have a major impact on the long-term growth of a portfolio. In fact, for many investors taxes are a larger drag on performance than fees or trading costs—and that tax drag can prevent or delay your ability to meet your long-term investing goals. It's a challenge that requires continuous, thoughtful management.

Parametric pioneered tax-managed investing in 1992. Since then—and in all market environments—we've helped investors reduce tax exposure while preserving market exposure.

Our solutions seek up to 2% in after-tax excess returns on an annualized basis.

## How we manage tax in a Custom Core portfolio



**Tax-loss harvesting.** Even in a market that's broadly rising, not all securities rise with it. **Many fall.** Directly owning the securities in a given benchmark means you can sell individual holdings and harvest those losses for tax purposes, offsetting capital gains elsewhere in your investment portfolio for current or future tax years.

The unique structure of an SMA makes this possible. You can't do this in an ETF or other index fund. Plus, we harvest losses year-round, not just in December, so you won't miss out on key tax-minimization opportunities when they happen.







**Optimizing capital gains and yield.** These are taxed at ordinary income rates unless you hold the investments for longer periods. We optimize where possible to help reduce your tax liability. We also advise on when it may make sense to realize a gain—if, for example, tax rates are expected to rise.



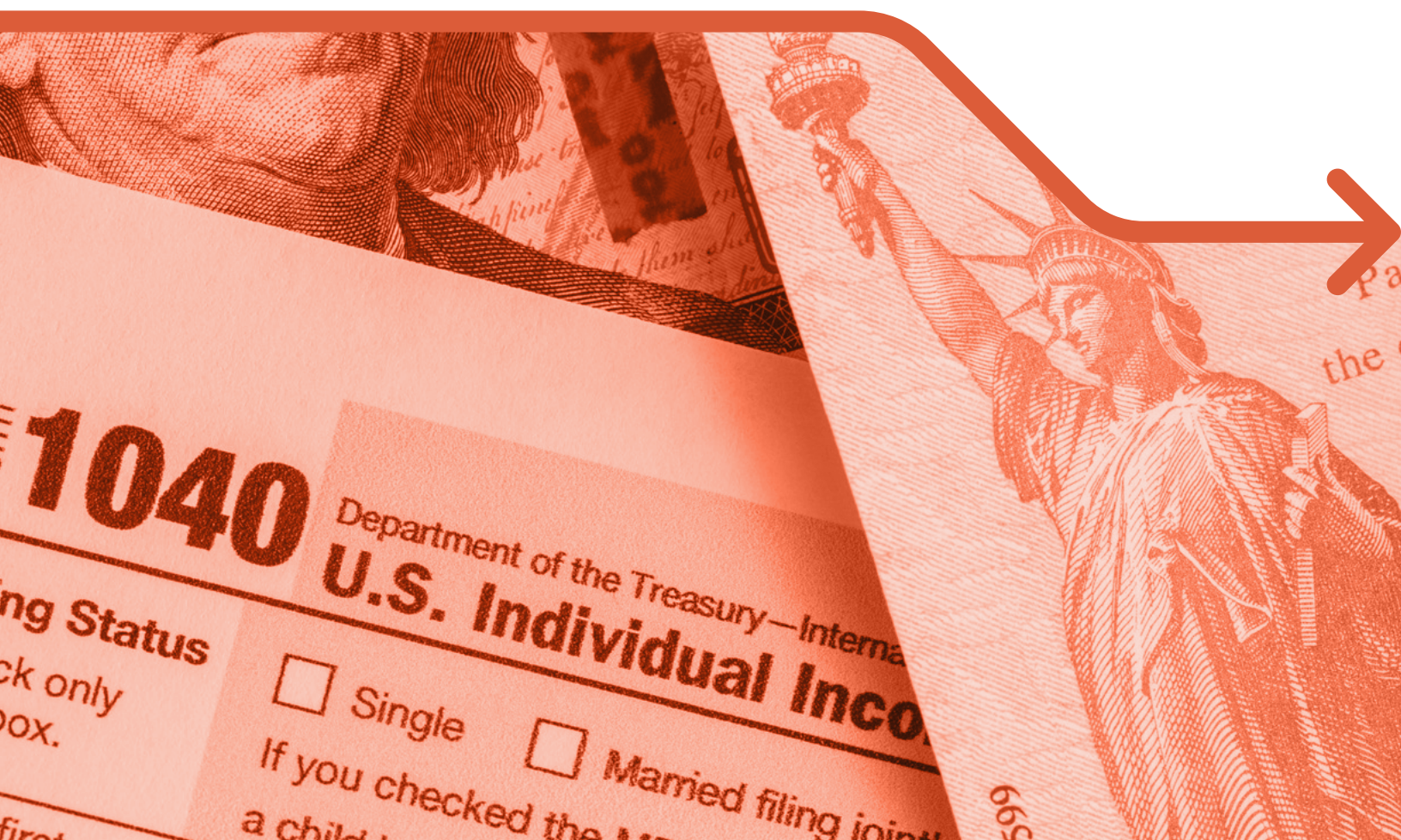
**Smart rebalancing.** When we sell securities to harvest losses in your portfolio, we replace them with ones that preserve your chosen exposure and your portfolio's overall risk-return profile.

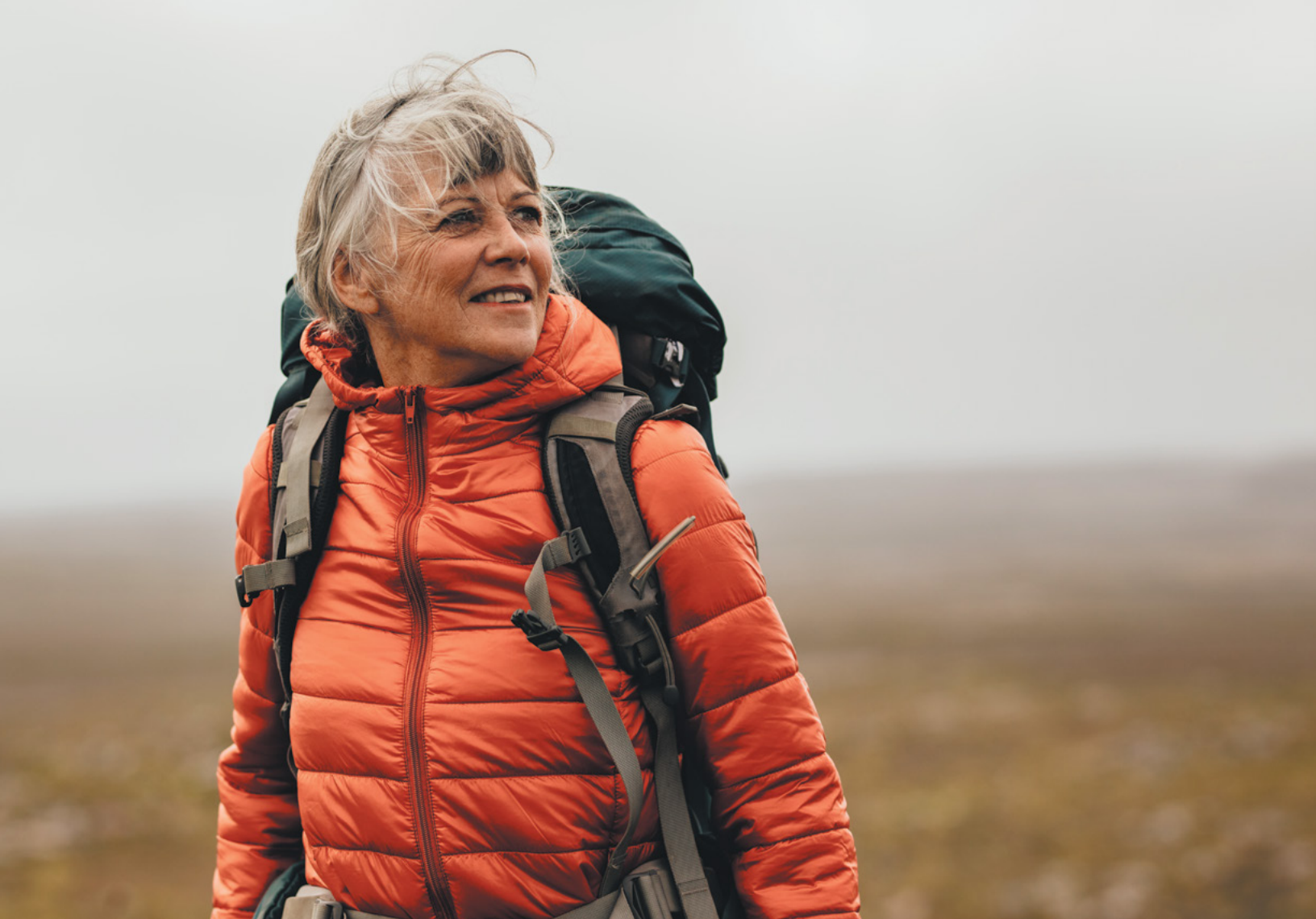


**Managing tax lots.** What if you bought securities over time at different price points? When you need to generate cash flow from your investments or have charitable-giving plans, we identify the ideal tax lots to trade.



We're obsessed with **maximizing your portfolio's after-tax performance.** Talk with your advisor about tailoring a Custom Core portfolio around your specific tax situation and needs.





# Responsible investing

Everything you want in your portfolio—and nothing you don't

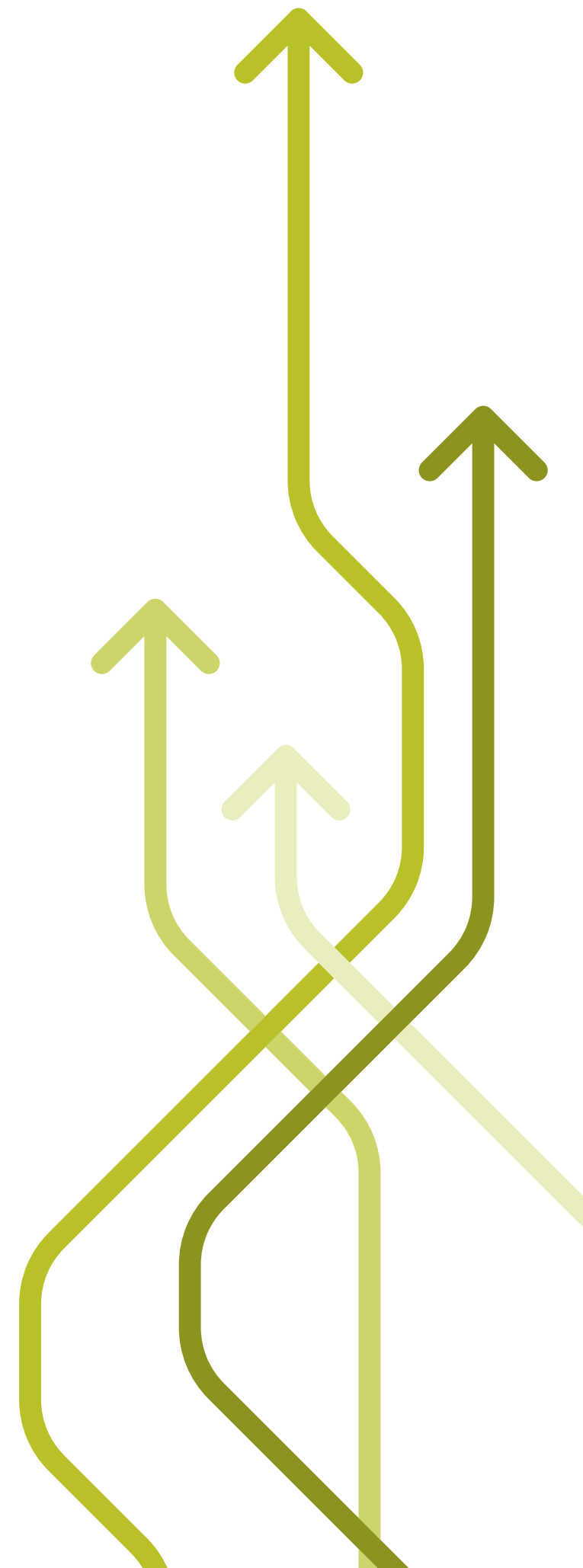


Maybe it's fossil fuels. Maybe it's guns. Maybe it's poor labor conditions. Whatever the reason, many investors who want broad, index-like market exposure also want to **express their ethical values** in their portfolio.



The good news is, you can use Custom Core to construct a passive portfolio that aligns with your principles. Parametric simplifies the process, whether you want to include only companies that score highly on issues such as carbon emissions or racial justice or those that match your faith-based convictions.

Whichever path you choose, we make the process transparent, so you and your advisor will always know what's in your account and can see the trade-offs and options available to you.





# Your voice matters

Across a wide range of environmental, social, and corporate governance issues, we can help you express your values through a custom portfolio, leaving out companies you'd prefer not to invest in.

But what if what you really want is for a company to behave differently? The best way is to own shares in that company and use your shareholder voting power accordingly.

Parametric engages directly with public companies and votes on behalf of many of our account holders on matters such as board gender equity, workforce diversity, and climate risk. We're passionate about investing but also about understanding investing's role in the world—and its capacity to help change it for the better.



## Memberships and affiliations





# Stocks *and* bonds

The investment universe isn't limited to equities, and neither is Custom Core. You can also build a fixed income account that follows popular benchmarks, providing broad exposure to bonds.

Just as we do with a Custom Core stock portfolio, we actively tax-manage your Custom Core bond portfolio, harvesting any losses year-round when the opportunities arise, so you can use them to offset realized capital gains elsewhere in your broader holdings.

We can also customize a bond portfolio around characteristics such as maturity date, credit quality, and industry. Plus, you'll get robust, forward-looking credit analysis from a dedicated team, so you can always have confidence in the bonds in your portfolio.



Interested in **tailoring** a bond portfolio to your **ethical principles**? We can do that too, working with you and your advisor to select only those bonds that meet your **environmental, social, or corporate governance criteria**.







# No two portfolios need be alike

**Personalization. Flexibility. Choice.** All three are built in to Custom Core to offer you things you can't get with other investment vehicles. And those aren't the only benefits.



## Build custom exposure

Many investors who want passive market exposure also want to tilt their portfolios toward value stocks, stocks with momentum, or those with other characteristics. Parametric makes it easy for you and your advisor to select and combine these tilts to give you the precise market exposure you're after.



## Fund with cash or securities

If you want to buy into an ETF, your only option is to fund the purchase with cash. With Custom Core, you can open an account with cash or with the securities you already own. Or both. We provide a set of transition scenarios so you and your advisor can evaluate the most tax-efficient way to transition.



## Gift individual securities

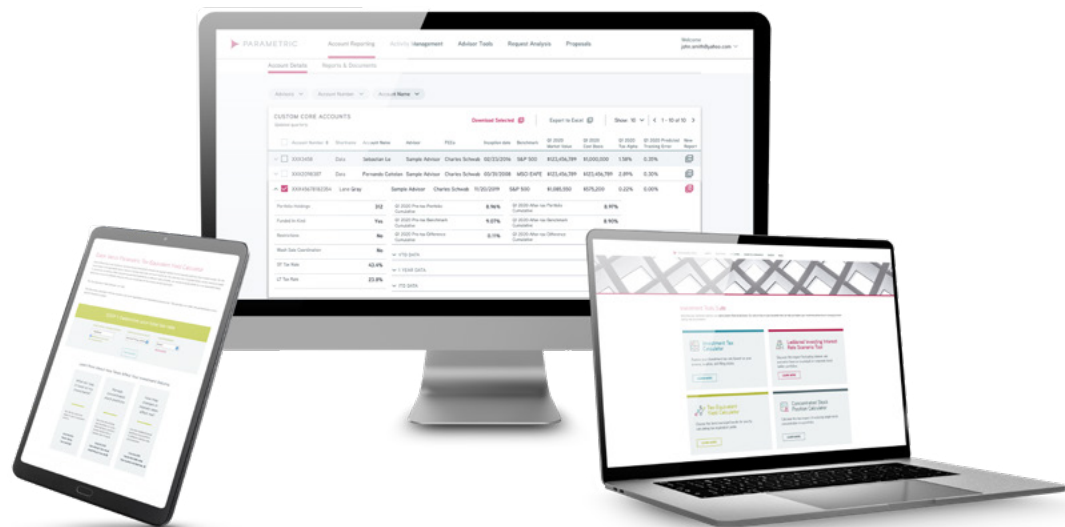
Custom Core gives you a wealth of choices an ETF can't. For example, you can decide to gift some securities to a charitable organization while leaving others to heirs. Gifting securities rather than cash also offers distinct tax advantages that amplify the benefits of a Custom Core account.



## Escape concentrated positions

Many investors today hold concentrated positions, increasing their portfolio risk if one of those positions drops in value. Selling to buy an ETF could mean a large capital gain. Transitioning to Custom Core—without selling the entire position—is the tax-smart move. We then work to tax-efficiently diversify the portfolio.





## No surprises

With Custom Core, you and your advisor **will always know what's in your portfolio**. At every stage, from account opening to regular tax management and rebalancing of your holdings, each trade will be transparent. We provide detailed yet straightforward reporting, available on demand to your advisor via our secure online platform.



Parametric  
is the leading  
provider of  
direct index  
SMAs.\*



## Service advisors have trusted for **more than 25 years**

With client-service professionals nationwide, we don't just offer Custom Core. We stand behind it for the lifetime of the portfolio, working collaboratively with your advisor to answer questions, address significant market events, and customize your holdings as your needs change.

You're a different kind of investor. That's why we believe in taking an active, engaged approach to managing your passive investments.

\* "Improving Client Experience: Customizing with Direct Indexing," Cerulli Associates research paper (sponsored by Parametric), August 2021.



With every client, our investment philosophy is to help you realize yours.



## Why Parametric?

Parametric pioneered the style of investing now called **direct indexing** back in 1992. Since then we've grown to become the leader in what we nerdily prefer to call custom passive separately managed accounts. We consider ourselves portfolio engineers, working through advisors and wealth managers to help them help investors like you reach your goals.

We don't make market bets. We're believers in the power of passive investing. But we believe in helping you be a passive investor on your own terms. That could mean everything from tailoring a Custom Core portfolio around your socially responsible investing principles to using Custom Core to complement your active holdings.





# Parametric by the numbers



**\$410B+**

assets under management



**145+**

investment professionals



**25+**

years of tax-management experience

As of 6/30/2021



## How to invest ● ● ●

Custom Core is made available to investors only through their financial advisors. Contact your advisor to learn more about opening a Custom Core account. We'd be happy to work with them to offer you a complimentary transition analysis and help you understand all the customization choices available to you.





## About

Parametric Portfolio Associates® LLC (“Parametric”), headquartered in Seattle, is registered as an investment advisor with the US Securities and Exchange Commission under the Investment Advisers Act of 1940. Registration does not imply a level of skill or training. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed income, alternative, and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay, and centralized portfolio management. Parametric is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley, and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York City, and Westport, Connecticut.

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There is no assurance that a separately managed account (“SMA”) will achieve its investment objective. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g., natural disasters, health crises, terrorism, conflicts, and social unrest) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g., portfolio liquidity) of events. Accordingly, you can lose money investing in an SMA.

Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse

than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. Prospective investors should consult with a tax or legal advisor before making any investment decision.

An environmental, social, and governance (“ESG”) investment strategy limits the types and number of investment opportunities available to the investor and, as a result, the investor’s portfolio may underperform other investment strategies that do not have an ESG focus. The ESG investment strategy may result in investments in securities or industry sectors that underperform the market as a whole or underperform other strategies that apply ESG standards. An issuer’s ESG performance or the investment advisor’s assessment of such performance may change over time, which could cause the investor to temporarily hold securities that do not comply with the investor’s responsible investment criteria. In evaluating an investment, the investment advisor is dependent upon information and data that may be incomplete, inaccurate, or unavailable, which could adversely affect the analysis of the ESG factors relevant to a particular investment. Successful application of the investor’s responsible investment strategy will depend on the investment advisor’s skill in properly identifying and analyzing material ESG issues.

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