

Client Leverages Custom Core[®] to Create a Custom Factor Blend

CHALLENGE

An advisor's prospective client sought the US small-cap and value exposure of a mutual fund but in a more tax-efficient vehicle.

SOLUTION

We created a custom blended benchmark with specific factor tilts similar to the fund's exposure but with a lower tax cost.

RESULTS

We transitioned the existing assets toward the desired exposure while limiting the realization of capital gains.

Challenge

An advisor uses an asset allocation for each of his clients that includes a US equity mutual fund with an emphasis on small cap, value, and profitability. A tax-sensitive potential client had a portfolio of appreciated securities. Selling the securities to buy the mutual fund would trigger a huge tax bill for the client. The advisor sought a solution that would provide the client with exposure similar to the mutual fund but in a more tax-efficient manner.

Could we help a tax-sensitive client transition appreciated securities yet preserve exposure?

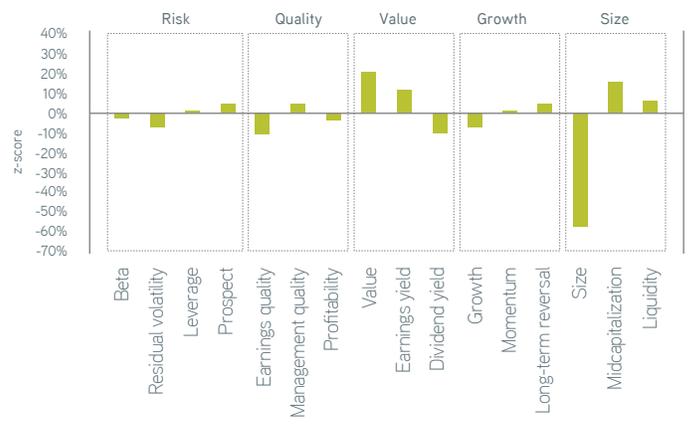
Parametric solution

Parametric reviewed the desired risk exposures and used a combination of our factor strategies and market-cap-weighted indexes to create a custom blended benchmark to match the target exposure. We used our proprietary tool to disaggregate the mutual-fund holdings and ran a risk decomposition to create a blended benchmark with factor exposures similar to those of the mutual fund. The custom blended benchmark provided the small-cap exposure along with a tilt toward size and value to match the fund.

Mutual fund vs. Russell 3000



Custom blend vs. Russell 3000



Source: Parametric, 12/31/2020. For illustrative purposes only. Not a recommendation to buy or sell any security. It is not possible to invest directly in an index.

Next, to review the tax impact of the transition, we ran a proprietary analysis to review multiple transition scenarios into a Parametric Custom Core® account that balanced tax cost with exposure to the new target. After reviewing the transition scenarios, the advisor could now select one whose tax cost met the client's needs. Over time our portfolio managers would then work to reduce the portfolio's tracking error to the target while being mindful of taxes.

Results

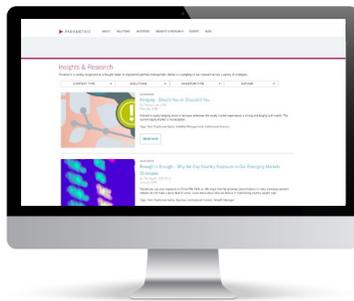
The advisor could now provide a customized solution to the client that transitioned the existing assets toward the desired exposure while limiting the realization of gains. Through ongoing management, the portfolio managers will continue to better align the portfolio to the targeted exposure in a tax-efficient way. The advisor can now also use the customized model for future clients.

While we have many factor blends we manage for clients, this specific blend has 355 accounts with \$1.47 billion in AUM attached to it.*

*As of 12/31/2020

We ran a proprietary analysis to review multiple custom transition scenarios that balanced tax cost with exposure to the new target.

The advisor can now also use the customized model for future clients.



Find more insights and research at parametricportfolio.com

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. 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.

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.

This information is intended for informational purposes and details investment strategies and opportunities identified by Parametric. 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. The views and strategies described may not be suitable for all investors. Past performance is not indicative of future results. Investing entails risks, and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric does not provide legal, tax, or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein.

This information is derived from the experiences and observations of Parametric. No representation or warranty is made as to the reasonableness of the assumptions made or that all assumptions used in achieving the results have been stated or fully considered. No representation is made that any client account will, or is likely to, achieve a successful outcome similar to the one presented. Actual results will differ and may differ substantially from the example provided. Changes in assumptions may have a material impact on the example presented. The information may not reflect the impact that material economic and market factors might have had on Parametric's decision-making.

All contents ©2021 Parametric Portfolio Associates® LLC. All rights reserved. Parametric Portfolio Associates®, Parametric with the triangle logo, and Custom Core® are trademarks registered in the US Patent and Trademark Office.

Parametric is located at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, or to request a copy of the firm's Form ADV or a list of composites, contact us at 206 694 5500 or visit www.parametricportfolio.com.