

College Endowment Achieves Diversified, Fossil-Free International Equity Portfolio

CHALLENGE

A college sought to divest itself from fossil fuels and maintain its desired risk-return profile in international equities.

SOLUTION

Parametric's International Equity Strategy with a fossil-free screen offered diversified exposure without unwanted companies.

RESULTS

The college was able to meet both its divestment goals and its strategic investment objectives.

Challenge

Facing overwhelming demand from its student body, a college endowment with more than \$50 million in assets sought to divest its holdings from companies that owned fossil-fuel reserves. The endowment's investment committee put out a request for proposal for a developed international equity mandate that could be made fossil free without impairing its risk-return profile.

Parametric solution

First it was important to find the right international strategy for this client. In recent years many investors have had growing doubts about the ability of active management to generate consistent outperformance in international markets. However, although passive strategies have lower management fees and transaction costs, they demonstrate high degrees of concentration, which can work against investor goals. Parametric's International Equity Strategy is designed to efficiently capture the long-term growth of this asset class while avoiding both the return risks of active management and the concentration risks of mainstream international equity indexes.

The strategy incorporates the ideas of equal weighting and systematic rebalancing. In addition, to boost the diversification of the strategy at the security level, Parametric deemphasizes those securities most correlated with global markets. Parametric's research and experience indicate that such an approach can provide a diversified core exposure for investors and be a powerful complement to both active and passive strategies.

Could we preserve the client's international exposure with a similar risk-return profile?

The removal of fossil-fuel companies didn't materially affect the exposure the client was seeking.

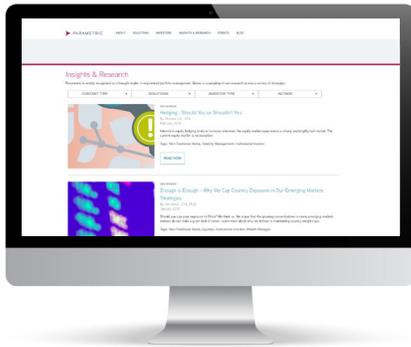


The next step was to apply a rules-based approach to ensure that the portfolio excluded all owners of fossil-fuel reserves. Leveraging ESG data, Parametric identified a comprehensive list of companies that met this definition and then ran a backtest to evaluate the effect of removing these companies from the portfolio. The backtest suggested the endowment could expect reasonable tracking error and long-term performance in line with the unscreened strategy. In other words, the removal of fossil-fuel companies didn't materially affect the exposure the client was seeking. Our research and this backtest suggest that while shorter time periods can have larger differences in performance, divesting from companies that own fossil-fuel reserves shouldn't have a material impact on long-term performance.

Results

Through the Parametric International Equity Strategy, the endowment was able to meet both the student body’s goal of divesting the college from fossil fuels and the investment committee’s need to maintain its desired exposure to developed international equities. Parametric was able to successfully customize the college endowment’s existing portfolio to match its changing needs.

Parametric successfully customized the client’s existing portfolio to meet changing needs.



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