

# Parametric Helps Ensure ESG Consistency Across a Diversified Portfolio

## CHALLENGE

A university sought to divest from fossil fuels across its entire equity portfolio of active and passive managers.

## SOLUTION

We implemented a fossil-free version of the portfolio while remaining invested in the existing managers.

## RESULTS

The university was able to remain invested in its target allocation and achieve a consistent fossil-free mandate.

### Challenge

Many institutional investors are under increasing pressure to consider their holdings' environmental or social behavior. However, if they're invested in commingled vehicles, they leave that discretion up to their investment manager—who may have a different opinion of what should be held in the portfolio.

In this case a Catholic university's endowment board voted to divest from fossil fuels. However, the endowment was invested in commingled funds that held companies involved in fossil fuels. That meant they couldn't remain in the active commingled vehicles and still uphold their pledge to be fossil free. What's more, the board expressed to us a future desire to explore faith-based screens, something their current commingled funds couldn't accommodate. Could we give the client control over its portfolio holdings while remaining invested with its active managers?

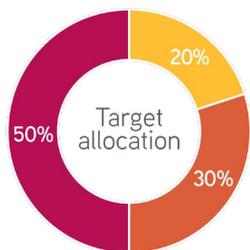
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### Parametric solution

Parametric proposed combining the underlying positions in each active or passive fund into a single account. Any environmental or social criteria could then be applied to this portfolio. The endowment directed each active manager to deliver a model portfolio (holdings and weights) to Parametric, which then aggregated these models, along with holdings from selected indexes, into a custom benchmark based on the endowment's target allocation.

We built a custom benchmark to omit any owners of fossil-fuel reserves.

Once the positions were combined, Parametric could use its ESG data sets in conjunction with its expertise in portfolio construction to build a portfolio that mirrored the client's target asset allocation while remaining invested with the active managers the university had carefully chosen. To accommodate the fossil-free mandate, Parametric modified the custom benchmark to omit any owners of fossil-fuel reserves. We then invested in the underlying holdings of the now fossil-free custom benchmark.



#### Existing portfolio

- Domestic US index fund
- Developed international active fund
- Emerging markets index fund

#### Parametric solution

- Custom Core® Russell 3000 (fossil free)
- Developed international active model (fossil free)
- Custom Core MSCI Emerging Markets Index (fossil free)

## Results

Parametric’s process helps investors remain invested in their active managers while also giving them complete control over the underlying exposures in the portfolio. This enhances flexibility, enabling investors to add ESG criteria and other portfolio customizations.

For the Catholic university’s endowment, this approach meant it could remain invested in its preferred active managers while achieving its fossil-free mandate. And given the flexibility and access to comprehensive ESG data that Parametric provides, it also means the endowment can incorporate other faith-based considerations whenever it’s ready to do so. It was a solution that helped the endowment satisfy not just its board’s return objectives but also the preferences of multiple stakeholders.

As of December 31, 2018, Parametric serves as the centralized portfolio manager to more than 7,800 clients, with a total of \$28.5 billion in CPM assets under management. Parametric also manages more than \$2 billion in assets for clients with fossil-fuel screens.

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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 (for example, 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 (for example, portfolio liquidity) of events. Accordingly, you can lose money investing in an SMA.

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 which apply ESG standards. An issuer’s ESG performance or the investment adviser’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 adviser 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 adviser’s skill in properly identifying and analyzing material ESG issues.

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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](https://www.parametricportfolio.com).