

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

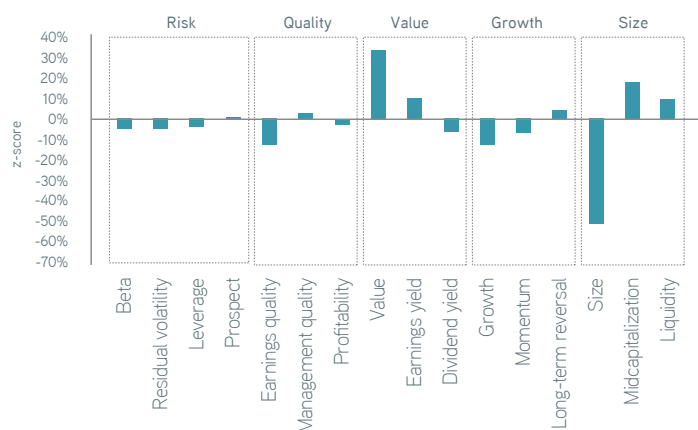
An advisor uses an asset allocation for each of his clients that includes a US equity mutual fund with an emphasis on small cap, value, and profitability. A tax-sensitive potential client had a portfolio of appreciated securities. Selling the securities to buy the mutual fund would trigger a huge tax 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?

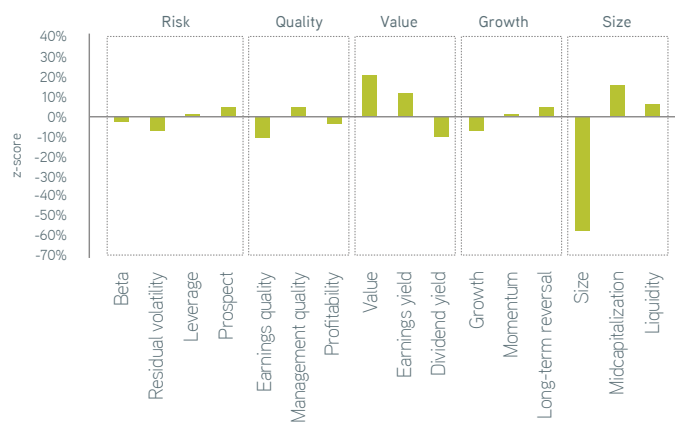
Parametric solution

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

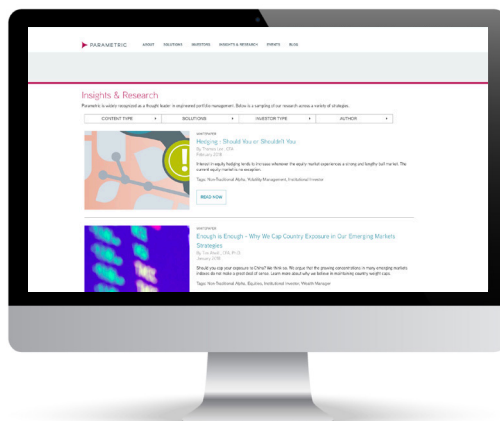
The advisor could now provide a customized solution to the client that transitioned the existing assets toward the desired exposure while limiting the realization of gains. Through ongoing management, the portfolio managers will continue to better align the portfolio to the targeted exposure in a tax-efficient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

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.

*As of 12/31/2020



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