

# 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?

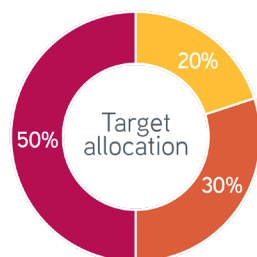
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### Parametric solution

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.

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.

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



#### 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.

The client could remain invested in its preferred active managers while achieving its fossil-free mandate.

Endowment board  
Risk data provider  
Active managers' models

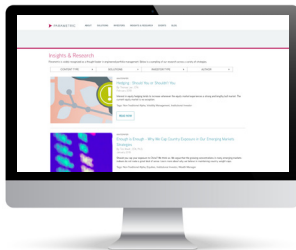
Index constituents  
Custodian



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