

Parametric Overlay Solutions

Strategy overview

An operationally efficient approach designed to improve portfolio outcomes

Parametric Overlay Solutions are a comprehensive range of highly customizable, risk-managed strategies that help institutional investors achieve policy objectives. Each overlay solution is designed to alleviate portfolio-specific shortfalls and inefficiencies. Common strategies include cash overlay, rebalancing overlay, transition overlay, and currency overlay. Others include liability-driven investing, cross-asset portfolio solutions, portable alpha, and portfolio completion.

Parametric Overlay Solutions are best suited for investors seeking a capital-efficient, cost-effective, and non-disruptive solution to the performance risk created by policy implementation shortfalls.

Potential benefits

Return/cost improvement

- Overlay strategies can offer increased expected returns, reduced tracking error, and lower transaction costs. These are achieved while providing greater liquidity and portfolio flexibility.

Risk management

- We provide enhanced risk controls, portfolio governance, and access to risk specialists. Our proprietary technology has been internally developed and is continually upgraded to mitigate program implementation risk.

Experience and scale

- We have over 30 years' experience in delivering overlay solutions and offer a high-touch, consultative approach, with a team experienced in structuring and executing overlay strategies.

Our core overlay strategies are designed to achieve the following:

Cash overlay



- > Eliminate cash drag on operating and manager cash balances
- > Improve liquidity and reduced transaction costs
- > Increase expected returns

Rebalancing overlay



- > Daily monitoring of portfolio allocations and thresholds
- > Prompt rebalancing of portfolio exposures
- > Reduced transaction costs and tracking error

Transition overlay



- > Reduction of performance risk through mitigation of exposure gaps
- > Added flexibility in manager terminations and new manager searches
- > Exposure throughout long-settled redemptions (e.g., hedge fund receivables)

Currency overlay



- > Mitigation of unintended currency risks
- > Ability to efficiently adjust currency exposure
- > Seamless integration with overlay program

Portfolio Management Process

We partner with our clients to assess desired market exposures, determine appropriate tracking methodology, identify appropriate instruments, and determine trade timing – all within the framework of the investors' risk tolerance.

Data delivery

Client account data is delivered into and validated by our proprietary investment management system.

Analytics and evaluation

Custom overlay analytics are generated. Parametric's Overlay team evaluates and confirms analytics.

Implementation

Any overlay adjustments are executed after multiple verification checks, and a comprehensive overlay program report is published to a secure client portal.

There is no guarantee that intended benefits will be achieved. Investing in an overlay strategy involves risk. All investments are subject to loss.

Investment philosophy

Parametric Overlay Solutions seek to add value through portfolio construction and the implementation of rules-based and transparent investment processes, focused on risk management, and structured to help clients achieve custom and unique outcomes.

Our overlay solutions are not active strategies that attempt to capture a market anomaly or inefficiency. We instead seek to address policy implementation challenges that occur in an institutional portfolio. As an extension of this investment philosophy, we maintain a high level of communication with clients to understand their goals and objectives and proactively contact clients when market developments present opportunities to improve program outcomes.

Investment objectives

Parametric Overlay Solutions offer a comprehensive, custom overlay program designed to help investors achieve policy objectives through adherence to detailed program guidelines.

Broad overlay objectives include:

- > Best execution and exposure management with cost reduction
- > Increased expected portfolio returns, liquidity, and flexibility
- > Enhanced risk control during transitions and/or reallocations
- > Comprehensive daily monitoring of fund exposures
- > Reduced performance risk to policy benchmark

Providing transparency when needed

Through a secure portal, Parametric provides clients with:

- > Detailed reporting of asset class and individual manager exposures, incorporating overlay positions to provide total fund exposures
- > A holistic portfolio management tool providing daily transparency across the entire fund
- > Access to timely fund information to aid in portfolio governance and informed investment decisions
- > Detailed performance metrics allowing overlay return attribution by asset class or overlay component
- > Customizable return analyses targeted to specific client and/or consultant needs



Team leadership

Ricky Fong, CFA
Director, Investment Strategy

Daniel Wamre, CFA
Director, Investment Strategy

Sylvia P. Horstmann, CFA
Director, Investment Strategy

There is no guarantee that investment objectives will be achieved. Investing in an overlay strategy involves risk. All investments are subject to loss.



About

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 an affiliate 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, and Westport. This material may not be forwarded or reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

Disclosures

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 appropriate 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 and/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. Additional information is available upon request.

Charts, graphs, and other visual presentations and text information were derived from internal, proprietary, or service vendor technology sources or may have been extracted from other firm databases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources including, but not limited to, Bloomberg, MSCI/Barra, FactSet, or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any other third party.

Derivatives such as futures, swaps, and other investment strategies have certain disadvantages and risks. Futures require the posting of initial and variation margin. Therefore, a portion of risk capital must be preserved for this purpose rather than being allocated to a manager. Liquid futures may not exist for published benchmarks which may result in tracking error. Also, some intraperiod mispricing may occur. Swaps require periodic payments, may be less liquid than futures, and may have counterparty/credit risk. Some investment strategies require a cash investment equal to the desired amount of exposure.

All contents ©2023 Parametric Portfolio Associates® LLC. All rights reserved. Parametric Portfolio Associates®, Parametric with the triangle logo, DeltaShift®, PIOS®, Custom Core®, Custom to the Core®, and Make passive investing personal® are trademarks registered in the US Patent and Trademark Office.

Parametric is headquartered at 800 5th Ave, Suite 2800, Seattle, WA 98104. Parametric’s Minneapolis office is located at 3600 Minnesota Drive, Suite 325, Minneapolis, MN 55435. For more information regarding Parametric and its investment strategies, or to request a copy of Parametric’s Form ADV, please contact us at 206.694.5575 (Seattle) or 952.767.7700 (Minneapolis) or visit www.parametricportfolio.com.