Parametric Global Defensive Equity

Strategy overview

Liquid alternative, with favorable risk-adjusted results

Global Defensive Equity (GDE) is a systematic investment strategy that seeks to provide favorable risk adjusted return streams.

The strategy's model-driven investment approach is designed to remove the emotions and guesswork from the investment decision-making process. A lower volatility portfolio is created by structurally reducing equity market risk, while systematically selling fully collateralized equity index options to enhance returns. When compared to a fully invested equity portfolio, it is expected that GDE's combination of reduced equity exposure and the VRP results in a smoother ride over the long term, reducing the magnitude of drawdowns and recovering more quickly from stress events.

The strategy is expected to deliver the best relative performance in moderately down and sideways markets while trailing equities in strong rallies. GDE is best suited for investors with a heightened sensitivity to equity risk, who are seeking increased yield or are dissatisfied with high fees and low realized alpha from traditional hedge funds.

Intended benefits

Systematic investment process

- Disciplined and rules-based investment process that is designed to result in repeatable and more formulaic results without the use of market forecasts or interference from behavioral biases.

Faster recovery

- The defensively structured base portfolio is designed to reduce drawdowns during stress events, and consistent exposure to the VRP aims to deliver faster recovery to peak valuation compared to a long-only equity portfolio.

Portfolio diversification

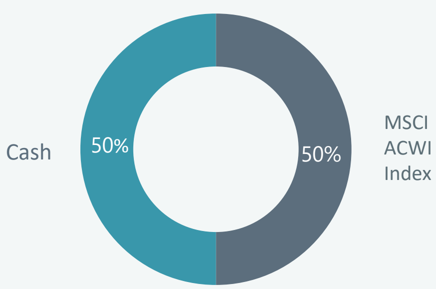
- Places investors in the path of a diversifying VRP, delivering favorable risk-adjusted returns without sacrificing liquidity. May be used as a complement or replacement for hedge fund or low volatility equity allocations.

Portfolio construction

Parametric GDE creates implicit downside protection through a core position in the MSCI ACWI Index and US Treasury bills, combined with fully collateralized short equity index call and put options. No leverage is used in the portfolio. To achieve these long-term investment objectives, multiple layers of diversification are incorporated into the portfolio construction process to meaningfully reduce risk.

Base Portfolio (defensive)

50% allocation to cash provides downside protection, but also reduces long-term expected return.



Option Overlay (VRP)

Sell put and call options against the base portfolio to enhance returns (capture the "Volatility Risk Premium").

Option Characteristics

- Equity index options (S&P 500®, MSCI EAFE and MSCI EM)
- Fully collateralized (no leverage)
- "Out of the money" at initiation
- Fixed initial delta allows strike prices to adjust dynamically
- 1-month or less initial tenor

Systematic Implementation

Systematic approach to portfolio management aims to deliver more predictable outcomes.

Rules-based Implementation

- Disciplined rebalancing back to 50/50 blend – no market timing
- Laddered option portfolio with options sales occurring multiple times per week
- At expiration, simultaneously sell new pair with the same initial characteristics

Cash component includes investment in US Treasury Bills. Certain statements contained herein reflect the subjective views of Parametric and as such cannot be independently verified. All investments are subject to loss. Investing in an options strategy involves risk. Please refer to the disclosures for additional information.

Investment thesis

As one of Parametric's VRP strategies, it is designed to capitalize on the tendency of implied volatility to exceed subsequent realized volatility. Through the systematic sale of equity index options, investors can harvest the volatility risk premium–a distinct, persistent, and diversifying return stream–without the use of leverage or market forecasts. These strategies are designed to increase portfolio diversification at a lower cost than traditional alternative investments, without sacrificing liquidity.

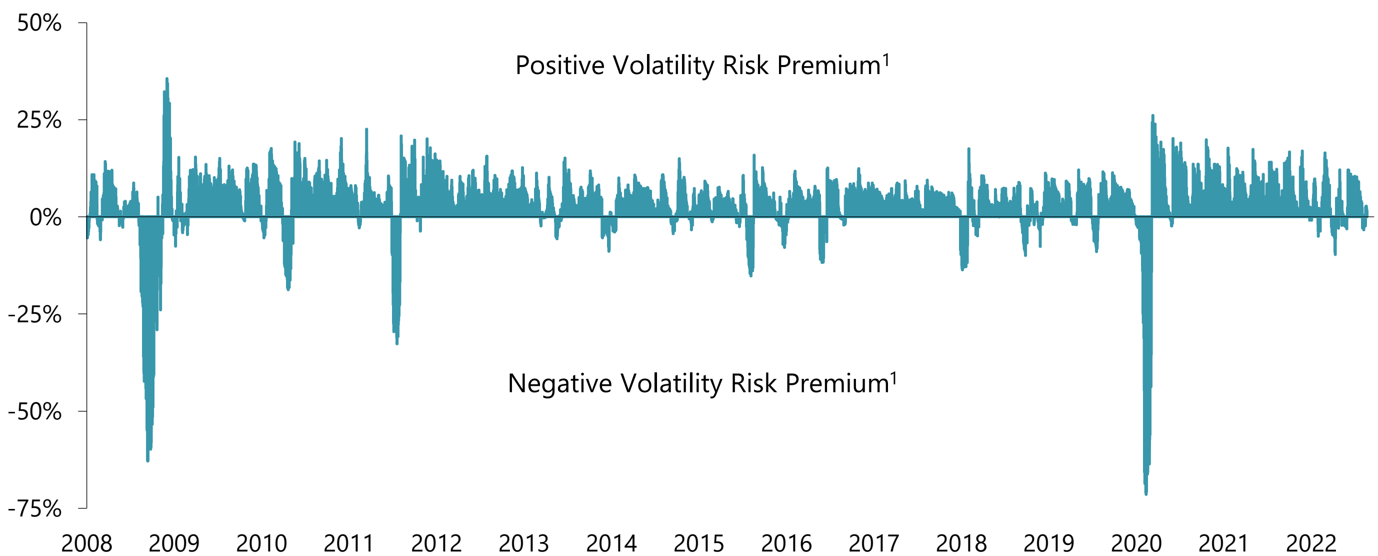
Investment objectives

GDE seeks to outperform the MSCI ACWI Index and long/short hedge funds over a full market cycle on both an absolute and risk-adjusted basis, while also reducing volatility versus the equity index by at least 40% across all stages of the market cycle. Additionally, it seeks to reduce the magnitude of drawdowns and recover faster from stress events. Since the portfolio holds an average 50% allocation to Treasury bills, shorter-term results are evaluated versus the 50% MSCI ACWI /50% Cash blended benchmark.

Empirical data supports our investment thesis

Global Equity options have traded with a positive volatility risk premium 83% of the time since 2008.

Global Equity: Implied minus Realized Volatility



[1]2008 to present represents longest period from which reliable data is available and accessible for S&P 500 Volatility Index. S&P 500® Index options relative valuation measured by taking daily observations of Implied Volatility (as measured by VIX Index) and subtracting the subsequent Realized Volatility of the S&P 500® over the subsequent 1 month (assuming 21 trading days). Options have historically traded about above subsequent realized volatility. Said another way, the option market tends to overestimate future volatility, which translates directly into higher prices for both puts and calls. VIX is the Chicago Board Options Exchange volatility index. VIX is calculated constantly throughout each trading day by observing the implied volatility derived from actual market prices of a wide array of put and call options with an average maturity of 30 days to expiration. For informational purposes only. It is not possible to invest directly in an index. All investments are subject to loss. Source: Parametric, Bloomberg; Date: 9/30/22.

Team leadership

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