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 may 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 of 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.

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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
Managing Director,
Investment Strategy

Daniel Wamre, CFA
Director,
Investment Strategy

Sylvia P. Horstmann, CFA
Director,
Investment Strategy

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