Parametric Institutional Fixed Income Solutions

Challenge

In today's yield rich environment, institutional investors are thinking more about fixed income across their portfolios. Higher interest rate volatility and lower levels of liquidity have delivered a number of new challenges for fixed income investors. We find many investors are seeking partners who can help construct solutions-oriented portfolios without taking on excess risks.

Solution

Parametric's Fixed Income Team provides many solutions for institutional investors in separate account form. We are a full-service consultative partner to implement portfolio exposures and risk management in a flexible, cost-effective and timely manner. Our solutions are customized, systematic, rules-based, and transparent. Portfolios can be benchmark-oriented or alpha seeking. They include physical fixed income collateral for large overlay programs, various fixed income derivative implementations, and can apply different factors and ESG themes to meet overall portfolio needs.

Investment Grade Corporates

- Rules-based portfolio construction – customized laddered, benchmark, or cash-flow focused strategies
- Stratified cell methodology used to minimize tracking error caused by systematic risk factors
- Conservative security selection driven by fundamental research to minimize idiosyncratic risk

US Governments & Derivatives

- Benchmark-based replications and laddered exposures
- Nominal Treasuries, TIPS, STRIPS
- UST Futures, Interest Rate Swaps, Total Return Swap, Options
- Repo markets used for cash management and leverage

US Municipals

- Long track record of Muni-Treasury crossover trading for taxable investors
- Active Total Return, Ladders, Taxable Municipals, Multisector solutions
- Security selection supported by 15-member credit research team

Experience and Scale

60

60 investment professionals with an average of 8 years of experience managing fixed income strategies for institutional investors*

33

33-person credit research team comprised of 18 analysts covering global investment grade credit, and 15 analysts covering the US municipal market*

$76B

$76B across a broad range of fixed income – including government, municipal, and credit*

$40B

$40B in synthetics or derivatives, including futures, options, and swaps*

*As of September 30, 2022

PARAMETRIC

Built on the basis of our core competencies, Parametric offers a diverse range of investment applications built on shared insight and common resources. ESG considerations can be incorporated across our fixed income solutions through the use of screens, integration and active ownership.

Solutions

Cash Management	• Solutions include money market alternatives, enhanced cash, ultra-short and short duration strategies. • Portfolios are customized to match clients' specific liquidity needs by investing in Treasury bills, short Treasury notes, and short corporate bonds. • Solutions can be fully integrated into our overlay capabilities, serving the dual role of gaining market exposure and providing margin for derivatives positions.
Corporate Ladders	• High quality corporate bonds provide predictable income and capital preservation. • Portfolios are constructed with the goal of maintaining principal protection with predictable cash flows, especially during environments of volatile interest rates and potential credit concerns. • The strategy tends to have less downside risk than broad based benchmarks.
Custom Indexing	• A simple, cost-effective way to achieve a desired market exposure. • Seeks to provide an index exposure through efficiently matching sector characteristics and risk factors, while allowing for customization. • Can be a passive portfolio of securities that adheres to a chosen benchmark.
Enhanced Indexing	• As a quasi-passive investment, the Enhanced Core strategy seeks to combine the benefits of a passive index investing with active collateral management of fixed income securities.
FI Overlay	• Parametric is a market leader in designing and implementing FI solutions as part of a broader multi-asset class overlay. • Each overlay solution is designed to alleviate portfolio-specific shortfalls and inefficiencies. Common strategies include cash securitization, rebalancing, transition management and portable alpha. • Best suited for investors seeking a capital-efficient, cost-effective and non-disruptive solution to the performance risk created by policy implementation shortfalls.
Liability-Driven Investing	• Experienced in designing LDI programs that help pension plans along their glidepaths. • Portfolios are benchmark-based and customized using a blend of benchmark weights to match liability characteristics, or fully customized seeking to immunize liabilities. Programs consider capital efficiency requirements and can be derivative-based, fully-funded or a combination of the two.
Total Return Muni – Treasury Crossover	• Seeks to add alpha over a benchmark by employing sector rotation between municipals and taxables (US Treasuries), security selection and relative value trading.

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The value of income securities also may decline because of real or perceived concerns about the issuer’s ability to make principal and interest payments. There is no assurance that a separately managed account (“SMA”) will achieve its investment objective. SMAs are subject to market risk, which is the possibility that the market values of the securities in an account will decline and that the value of the securities may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in an SMA. An imbalance in supply and demand in the municipal market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. There generally is limited public information about municipal issuers. As interest rates rise, the value of certain income investments is likely to decline. Longer-term bonds typically are more sensitive to interest-rate changes than shorter-term bonds. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of nonpayment of principal and interest.

As interest rates rise, the value of a client portfolio invested primarily in fixed-income securities or similar instruments is likely to decline. Conversely, when interest rates decline, the value of such a client portfolio is likely to rise. Securities with longer maturities are more sensitive to changes in interest rates than securities with shorter maturities, making them more volatile. A rising interest rate environment may extend the average life of mortgages or other asset-backed receivables underlying mortgage-backed or asset-backed securities. This extension increases the risk of depreciation due to future increases in market interest rates. In a declining interest rate environment, prepayment of certain types of securities may increase. In such circumstances, the portfolio manager may have to reinvest the prepayment proceeds at lower yields. A strategy that is managed toward an income objective may hold securities with longer maturities and therefore be more exposed to interest rate risk than a strategy focused on total return.

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 intra-period mispricing may occur. Swaps require periodic payments, may be less liquid than futures, and may have counterparty or credit risk. Some investment strategies require a cash investment equal to the desired amount of exposure.

An environmental, social and governance (“ESG”) or “responsible” investment strategy limits the types and number of investment opportunities available to the investor and, as a result, the investor’s portfolio may underperform other investment strategies that do not have an ESG focus. The ESG investment strategy may result in investments in securities or industry sectors that underperform the market as a whole or underperform other strategies which apply ESG standards. An issuer’s ESG performance or the investment adviser’s assessment of such performance may change over time, which could cause the investor to temporarily hold securities that do not comply with the investor’s responsible investment criteria. In evaluating an investment, the investment adviser is dependent upon information and data that may be incomplete, inaccurate or unavailable, which could adversely affect the analysis of the ESG factors relevant to a particular investment. Successful application of the investor’s responsible investment strategy will depend on the investment adviser’s skill in properly identifying and analyzing material ESG issues.

Parametric is located at 800 Fifth Avenue, Suite 2800, Seattle, WA 98104. For more information regarding Parametric and its investment strategies, including a list of composites, or to request a copy of Parametric’s Form ADV, please contact us at 206.694.5575 or visit our website, www.parametricportfolio.com.

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