Parametric Equity PLUS

Strategy overview

Enhanced equity strategy with options-based VRP overlay

Finding consistent net-of-fees alpha from traditional stock selection in the large-cap equity space remains challenging. Equity PLUS combines a passive core portfolio with a more reliable source of outperformance—the volatility risk premium (VRP) via beta-neutralized call overwriting—seeking to outperform the S&P 500® and achieve top-quartile performance in the US large-cap core universe.

While typical call overwriting strategies, such as the Cboe S&P 500® BuyWrite Index (BXM), reduce beta and upside participation, Equity PLUS offsets the directional exposure in its call overwriting with incremental long equity exposure via futures to maintain an average 1.0 long-term equity beta. Coupled with a protective risk-management overlay, the end result is a transparent, liquid portfolio designed to produce repeatable long-term outperformance.

Intended benefits

Source of alpha

Our "beta neutral" implementation of call overwriting seeks to better isolate the VRP as the strategy's key source of value-add, delivering alpha that is more consistent than traditional stock selection and less regime-dependent than traditional covered call strategies.

Transparent, rules-based design

Our rules-based portfolio design is disciplined and transparent, removing emotion and guesswork from the portfolio management process. The impact of "left tail" events is further managed by a systematic risk-management overlay seeking to improve the formula of outcomes.

Partnership with a trusted fiduciary

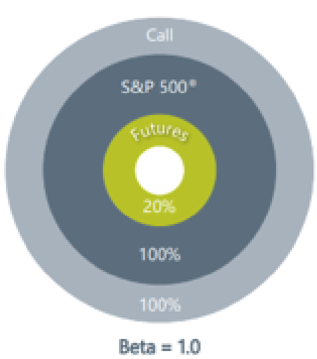
Parametric has been building customized investment solutions across equities, options, and futures for over three decades. Equity PLUS leverages these capabilities into a single portfolio supplemented with a risk-management overlay.

Portfolio Construction

The base portfolio comprises 100% S&P 500® exposure, overlayed with short-dated index call options. To neutralize the short equity exposure embedded in short call options, Equity PLUS adds incremental long equity exposure via S&P 500® futures. This allows Equity PLUS to maintain an average long-term beta of 1.0, while capturing a positive VRP. Last, Equity PLUS incorporates a fixed-budget Tail Risk Strategy allocation to hedge against the risk of left tail market events.

Equity PLUS

- Combine beta-neutral call selling with 1.0 beta base portfolio
- Risk management overlay to manage drawdowns and eliminate leverage



$100mm Sample Portfolio

- $120mm S&P 500 exposure
  - $80mm ETF-based
  - $40mm futures-based
- $20mm cash supports margin
- $100mm (notional) call overwriting
- $500 risk management overlay budget (0.5%)

Option Overlay

- Short call options
  - Reset every 1-2 weeks and diversified on entry/exit dates
  - Equity exposure of short calls is -20%
- Static delta offset of +20% via long equity futures is incorporated to recoup 1.0 Beta
- Risk management overlay, including long S&P 500 put options and VIX call options

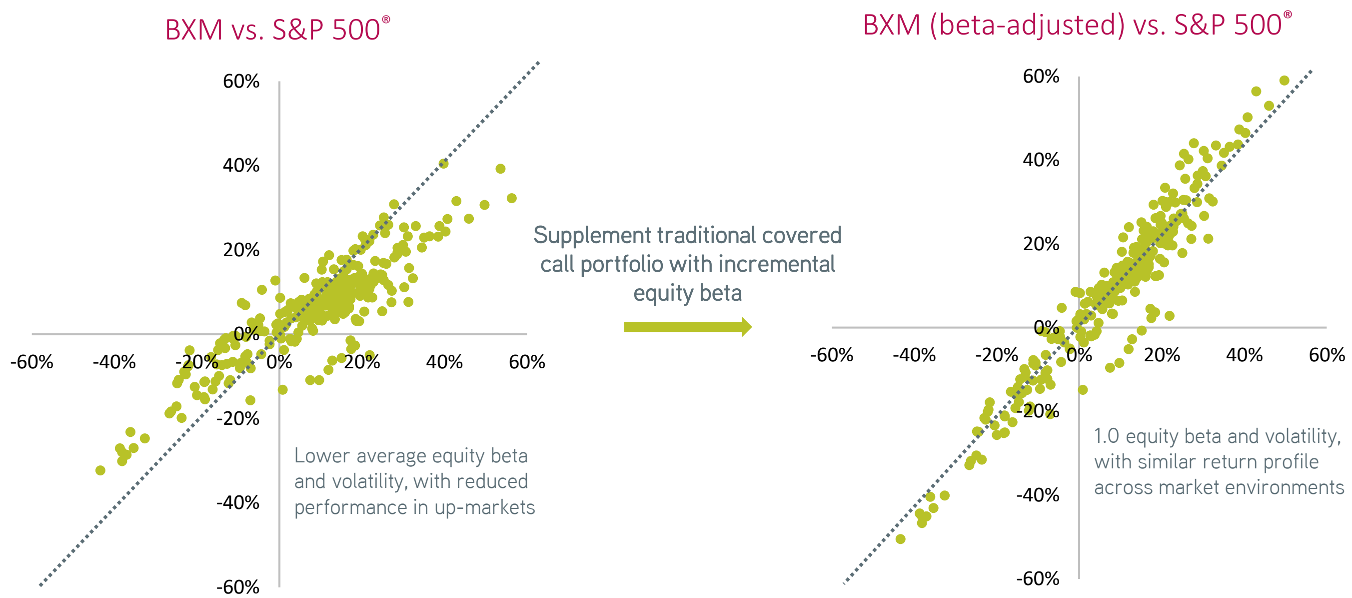
For illustrative purposes only. There is currently only limited track record for the strategy. All investments are subject to loss. Investing in an derivatives strategy involves risk. Please refer to the disclosures for additional information.

PARAMETRIC

Study: Return profile of traditional covered call portfolio supplemented with incremental equity beta

Traditional covered call-selling strategies like the Cboe S&P 500 BuyWrite Index (BXM) reduce equity beta to the underlying index, delivering a return profile with reduced volatility but underperforming during strong bull markets. In contrast, Equity PLUS is adjusted for the reduction in beta with additional long equity exposure.

The figure below illustrates this simple concept using the BXM index. The index holds long S&P 500 exposure and sells at-the-money call options. Its long-term average beta is around 0.6. This concave return profile relative to the S&P 500 is shown on the left side, with outperformance in down and flat markets, while trailing in strongly positive markets. On the right side, the BXM is beta-adjusted by overlaying offsetting equity exposure to bring the strategy back to a 1.0 beta.



Sources: Parametric, Bloomberg; 04/1/1996-8/22/2023. Timeframe is based on the data availability of the options utilized in the Equity PLUS strategy. Beta-adjusted BXM results are proxied by applying .5 S&P 500. For illustrative purposes only. It is not possible to invest directly in an index. They are unmanaged and do not reflect the deduction of fees and other expenses.

Team leadership

Alex Zweber, CFA, CAIA
Managing Director, Investment Strategy

Michael Zaslavsky, CFA, CAIA
Senior Investment Strategist

Yuepeng "Perry" Li, CFA, FRM
Senior Investment Strategist

PARAMETRIC