Parametric

Parametric Tax Optimized Ladder Strategy Overview

Investment Objective

Seeks to deliver an optimal mix of tax-exempt and taxable bonds based on an investor's tax considerations and relative value.

Investment Approach

Professionally managed, Tax Optimized Laddered bond portfolios seek to provide greater after-tax income compared with single-sector bond portfolios. This Tax Optimized Ladder strategy allows for customized management for clients based on their individual tax rates, with the benefits of institutional buying power, professional credit oversight, and ongoing tax-loss harvesting.

Capital preservation

- Leverage a team of experienced credit analysts who select and monitor bond investments for clients
- Seek to minimize impact of interest rate risk by reinvesting maturing bond proceeds at higher interest rates

Income Focus

- Seek to maximize after-tax income by optimizing across tax-exempt and taxable sectors based on individual tax rates

Access to institutional buying power

- Use relative-value analysis across fixed income sectors to invest in the most attractive asset class
- Leverage institutional purchasing power to discover value among primary and secondary markets

Customization Options

Individual tax rate
- Strategy is customized to the individual client's federal and state tax bracket

Maturity range
- One-to-10 years or shorter, with maturities starting at one year

Securities per maturity
- One or more depending on investment size

Credit quality
- A- or BBB minimum for tax-exempt municipal bonds
- A- or BBB- minimum for corporate bonds (with 50% max to BBB-)[1]

Tax-loss harvesting
- Opt-in tax-loss harvesting feature allows for losses to be realized opportunistically on a year-round basis

Turnover
- Normal turnover: Retain bonds that fit the credit and maturity parameters of the chosen structure. Bonds that do not fit will be opportunistically offered and proceeds will be invested per the portfolio parameters
- No turnover: Inherited bonds will be sold only for credit reasons, otherwise will be retained. If chosen, ongoing tax loss harvesting may also trigger sales. Proceeds will be reinvested per the portfolio parameters

Additional highlights

- Approximately equal weighted by maturity, laddered portfolio of diversified bonds
- Ladder strategies typically do not experience turnover outside of: maintenance of client-selected laddered maturity range, credit downgrades, and reinvestment of maturing or called bonds
- Optimization across sectors only occurs at time of cash investment
- No bonds subject to the alternative minimum tax
- Predictable cash flow

Tax-exempt sectors
- Municipal bonds

Taxable sectors
- Corporate bonds
- U.S. Treasury bonds

Strategy availability and customization options will vary by firm and platform.

Tools for Transition

Transition analysis report

For clients with existing portfolios, Parametric can provide a detailed analysis of current holdings and how they would be transitioned to a Tax Optimized Ladder portfolio.

Sample portfolio report

A personalized report detailing the holdings, structure, and credit breakdown of a hypothetical Tax Optimized Ladder portfolio. Parametric customizes sample portfolios to client maturity, credit, and tax rate.

[1] Ratings are based on Moody's, S&P, or Fitch, as applicable. Credit ratings are based largely on the ratings agency's investment analysis at the time of rating, and the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition. The rating assigned to a security by a ratings agency does not necessarily reflect its assessment of the volatility of a security's market value or the liquidity of an investment in the security. If securities are rated differently by the ratings agencies, the higher rating is applied. Ratings of BBB or higher by S&P or Fitch (Baa or higher by Moody's) are considered to be investment-grade quality.

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By investing in investment company securities, the portfolio is subject to the underlying risks of that investment company's portfolio securities. In addition to the portfolio's expenses, the portfolio generally would bear its share of the investment company's fees and expenses.

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. 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 (natural disasters, health crises, terrorism, conflicts, social unrest, etc.) that affect markets, countries, companies, or governments. It is difficult to predict the timing, duration, and potential adverse effects (portfolio liquidity, etc.) of events. Accordingly, you can lose money investing in an SMA.

Investment strategies that seek to enhance after-tax performance may be unable to fully realize strategic gains or harvest losses due to various factors. Market conditions may limit the ability to generate tax losses. Tax-loss harvesting involves the risks that the new investment could perform worse than the original investment and that transaction costs could offset the tax benefit. Also, a tax-managed strategy may cause a client portfolio to hold a security in order to achieve more favorable tax treatment or to sell a security in order to create tax losses. Prospective investors should consult with a tax or legal advisor before making any investment decision.

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, contact us at 206-694-5575 or visit www.parametricportfolio.com.

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