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

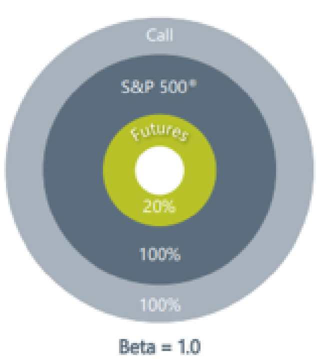
Parametric has been building customized investment solutions across equities, options, and futures for over three decades. Equity Plus leverages these capabilities into a single portfolio supplemented with a risk-management overlay.

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
  - $95mm ETF-based
  - $25mm futures-based
- $5mm cash and $95mm ETFs supports margin
- $100mm (notional) call overwriting
- $500k 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.

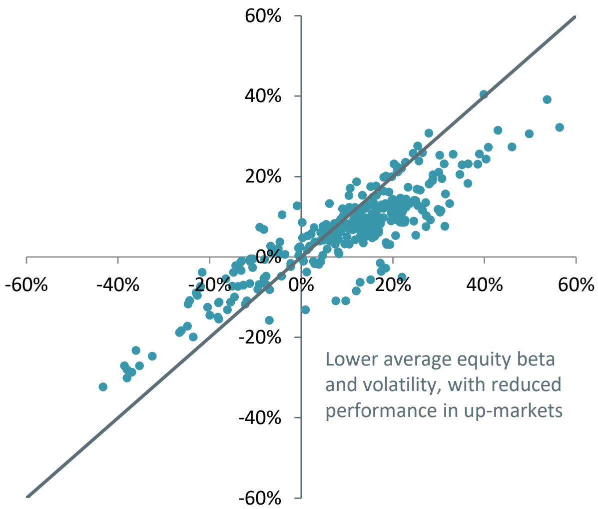
Parametric

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.

BXM vs. S&P 500®



Supplement traditional covered call portfolio with incremental equity beta

BXM (beta-adjusted) vs. S&P 500®

Sources: Parametric, Bloomberg; 1/1/1998-10/30/2024. 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

Parametric

Parametric Portfolio Associates® LLC ("Parametric"), headquartered in Seattle, is registered as an investment advisor with the Securities and Exchange Commission under the Investment Advisors Act of 1940. Parametric is a leading global asset management firm, providing investment strategies and customized exposure management directly to institutional investors and indirectly to individual investors through financial intermediaries. Parametric offers a variety of rules-based investment strategies, including alpha-seeking equity, fixed-income, alternative and options strategies. Parametric also offers implementation services, including customized equity, traditional overlay and centralized portfolio management. Parametric is a wholly-owned subsidiary of Eaton Vance Corp. and offers these capabilities through offices located in Seattle, Boston, Minneapolis, New York, and Westport. This material may not be forwarded or reproduced, in whole or in part, without the written consent of Parametric. Parametric and its affiliates are not responsible for its use by other parties.

This information is intended for informational purposes and details investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be appropriate for all investors. Past performance is not indicative of future results. Investing entails risks and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric and Morgan Stanley do not provide legal, tax and/or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein. Additional information is available upon request.

Charts, graphs and other visual presentations and text information were derived from internal, proprietary, and/or service vendor technology sources and/or may have been extracted from other firm data bases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources including, but not limited to, Bloomberg, MSCI/Barra, FactSet, and/or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any other third party.

There is no assurance that the investment objective(s) will be achieved. All investments are subject to the risk of loss.

No security, discipline, or process is profitable all of the time. There is always the possibility of loss of principal.

The effectiveness of the option strategy depends on a general imbalance of natural buyers over natural sellers of index options. This imbalance could decrease or be eliminated, which could have an adverse effect. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived and well-executed options programs may be adversely affected by market behavior or unexpected events. Successful options strategies may require the anticipation of future movements in securities prices, interest rates and other economic factors. No assurances can be given that the judgment of Parametric in this respect will be correct.

Options are not suitable for all investors and carry additional risks. Investors must ensure that they have read and understood the current options risk disclosure document before entering into any options transactions. The options risk disclosure document can be accessed at the following web address: http://www.optionscliearing.com/about/bulications/character-risks.jsp. In addition, investors should consult with tax, legal and/or financial advisor prior to contemplating any derivative transactions.

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 intraperiod 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.

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.

11.12.2024 | Exp. 11.31.2025
48742 RO 4021794

Parametric