



**Parametric**<sup>™</sup>  
Engineered Portfolio Solutions

## HOW EXPOSED ARE YOU TO THE EMERGING MARKETS?

Gregory Johnsen, CFA

Director – Institutional Portfolio Manager

March 23, 2016

# ABOUT PARAMETRIC

## Leaders in engineered portfolio solutions

- Quantitative, rules-based, and risk-controlled strategies
- Founded in 1987; Based in Seattle, WA
- 76 investment professionals\*

## Parent Company: Eaton Vance Corp. (NYSE Symbol: EV)

- Parametric Portfolio Associates LLC (“Parametric”) is a majority-owned subsidiary of Eaton Vance Corp.
- Parametric equity ownership is broadly distributed among senior management and investment professionals

## Assets under management as of 12/31/2015

- Parametric: Approximately \$152.3 Billion\*

\*As of 12/31/2015. Includes AUM and investment professionals of Parametric Risk Advisors LLC (“PRA”), a wholly owned subsidiary of Parametric. Includes AUM of Parametric Investment & Overlay Strategies and Parametric Custom Tax-Managed & Centralized Portfolio Management.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# EVIDENCE FOR STRATEGIC ALLOCATION TO EMERGING MARKETS

## Emerging markets have consistently increased their share of global GDP over the last 30 years

- As of 2015, emerging and frontier market countries account for 57.1% of global GDP<sup>1</sup>

## Population growth

- 85.3% of the world's population lives in an emerging or frontier markets country<sup>1</sup>
- Large potential for consumer growth if urbanization trend continues

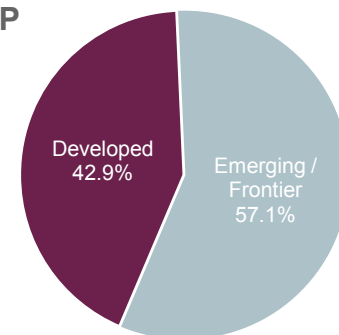
## Landmass

- 7 of the 10 largest countries worldwide are classified as emerging or frontier<sup>2</sup>
- Large infrastructure build out yet to occur in many countries

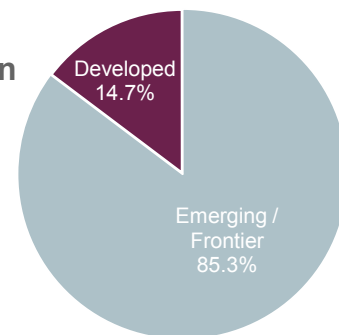
## Emerging Markets makes up a growing portion of the World Equity Markets

- Almost 10.0% of MSCI ACWI<sup>3</sup>

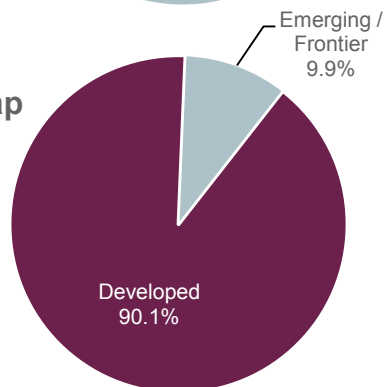
World GDP



World Population



Global Market Cap



Source: <sup>1</sup>IMF *World Economic Outlook*, October 2015, <sup>2</sup>CIA *The World Factbook* 2015, <sup>3</sup>MSCI, 12/31/2015. Information is for illustrative purposes only, is subject to change at any time and should not be considered investment advice.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# WORLD EQUITY INDEX DATA

	S&P 500	MSCI World	MSCI EAFE	MSCI EM	MSCI Frontier	MSCI Europe	MSCI Japan	MSCI UK	MSCI EAFE Small Cap	MSCI EM Small Cap
Price Earnings	21.18	19.02	16.99	11.75	10.51	18.09	16.02	16.06	21.45	24.85
Price to Book	2.58	2.15	1.63	1.22	1.45	1.78	1.36	1.73	1.59	1.29
Dividend Yield	2.2	2.57	3.17	2.81	4.31	3.42	1.91	4.17	2.29	2.36
Standard Deviation (10 year)	15.06	16.36	18.48	23.6	19.21	15.26	15.45	14.11	19.66	25.41

Sources: MSCI, S&P as of 12/31/2015. Index data is provided for informational purposes only. It is not a recommendation to buy or sell any security or invest in particular strategy. It is not possible to invest directly in an index; they are unmanaged and do not reflect the deduction of management fees and other expenses. Past performance is not indicative of future results. Please review the Disclosures provided at the end of this presentation for additional information.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# EMERGING MARKET CHARACTERISTICS

## Emerging Markets are characterized by the following:

- Highly volatile assets with low correlations
- Unreliable information
- High transaction costs

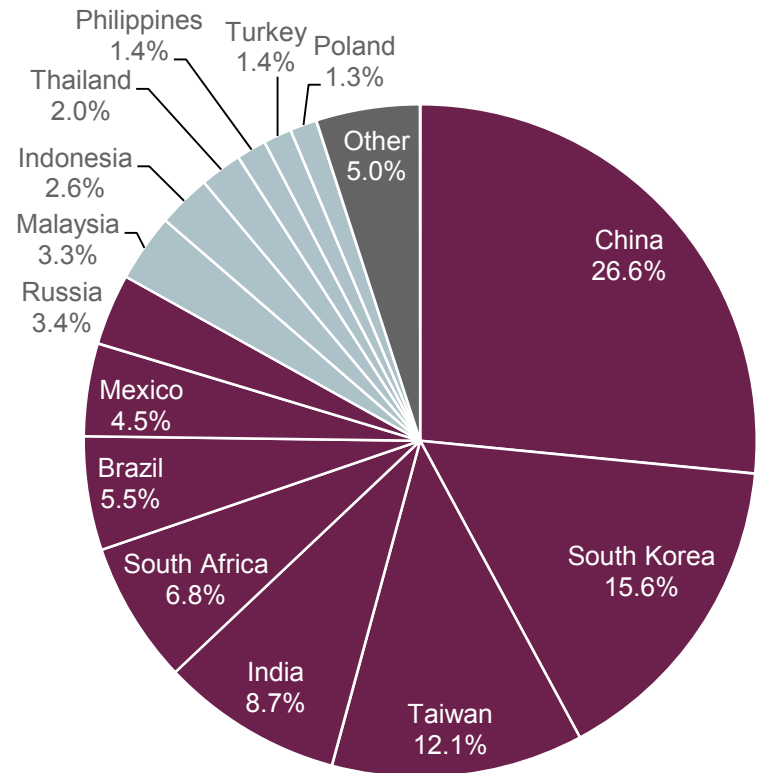
## A capitalization-weighted index is risky:

- Highly concentrated country allocations
- Over 80% of the Index concentrated in just 8 countries

## Arbitrary distinction between frontier and emerging

- Similar investment thesis for investing in both
- Diversification and operational benefits from including frontier

MSCI Emerging Markets Index\*



\*Source: MSCI EM. Data as of 12/31/2015. It is not possible to invest directly in an index. Please refer to the Disclosure at the end of this presentation for further information.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# DYNAMICS OF THE EMERGING MARKETS

## Annualized Standard Deviation 5 Years Ending December 2015



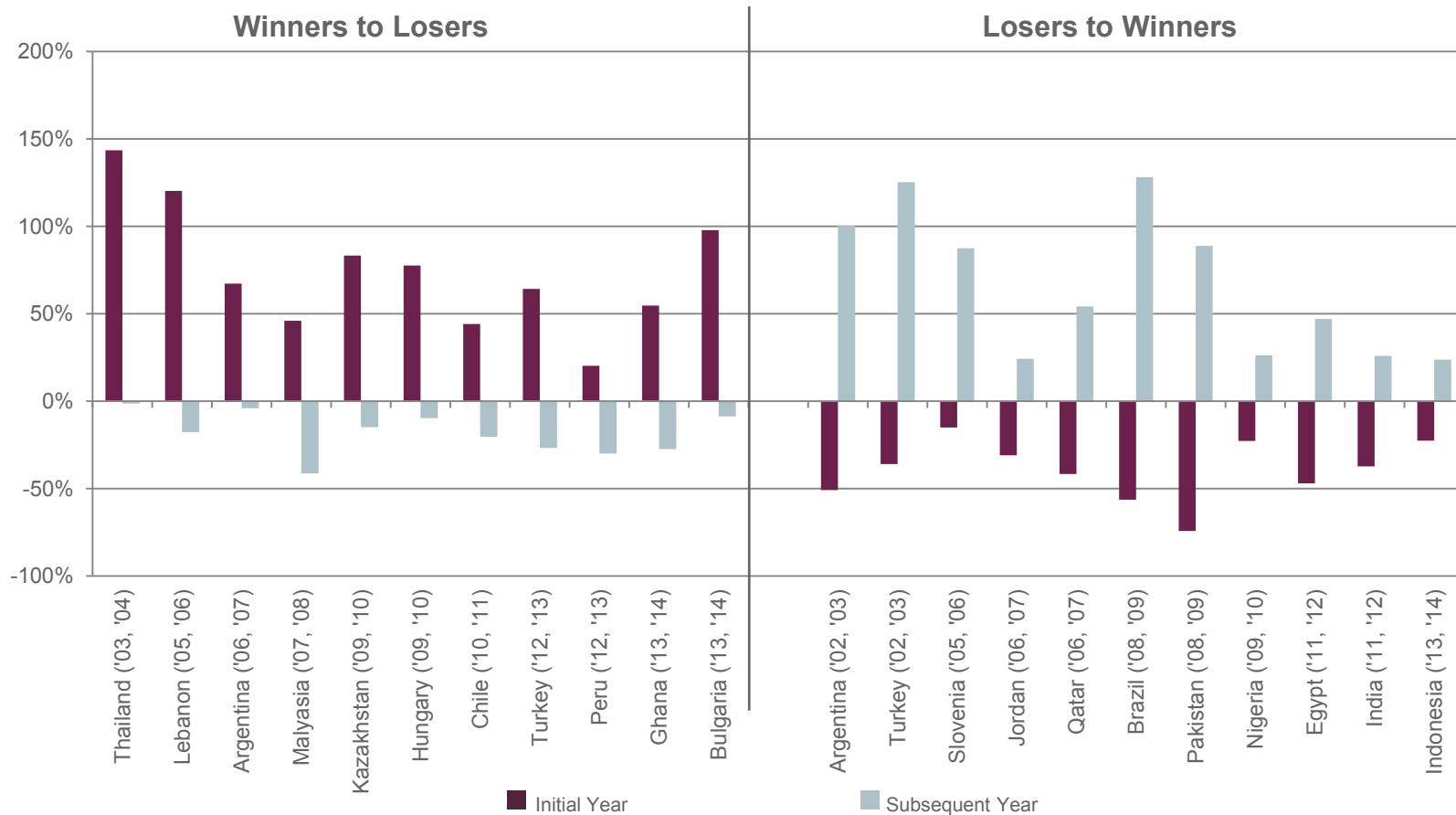
Source: Parametric, MSCI, S&P 12/31/2009-12/31/2015. Correlation is a statistical measurement of how two sequences of returns move with respect to each other. Values range from -1 to 1, with -1 indicating that if one return moves upward or downward, the other moves in the opposite direction and 1 indicating that as one moves upward or downward, the other moves in the same direction. This information is for illustrative purposes only. Countries are classified as either Emerging Markets or Frontier Markets according to their membership in the MSCI Emerging Markets Index or the MSCI Frontier Markets Index, respectively.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.



# SUDDEN REVERSALS IN EMERGING MARKETS

## Examples of Reversals in Emerging and Frontier Country Returns



Source: S&P/IFCI Emerging Markets as of 12/31/2015. This information is for illustrative purposes only, is subject to change at any time and should not be considered investment advice or a recommendation to buy or sell any particular security or adopt any particular strategy. The purpose of this information is to provide an example (historically) of emerging markets volatility from 2003 to 2014. Note that these are the most extreme cases of reversals in the emerging and frontier market countries. Past performance is not indicative of future results.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.



# STRATEGIES FOR ACHIEVING EMERGING MARKETS EXPOSURE

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# WHAT DRIVES RETURNS FOR INTERNATIONAL MARKETS?

## Contributions of Risk Factors to Cross Sectional Volatility, MSCI EAFE IMI Index, 12/31/1997 – 12/31/2015



Source: MSCI as of 12/31/2015. This information is provided for illustrative purposes only. It is not possible to invest directly in an index

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# COUNTRY RISK DOMINATES IN EMERGING MARKETS

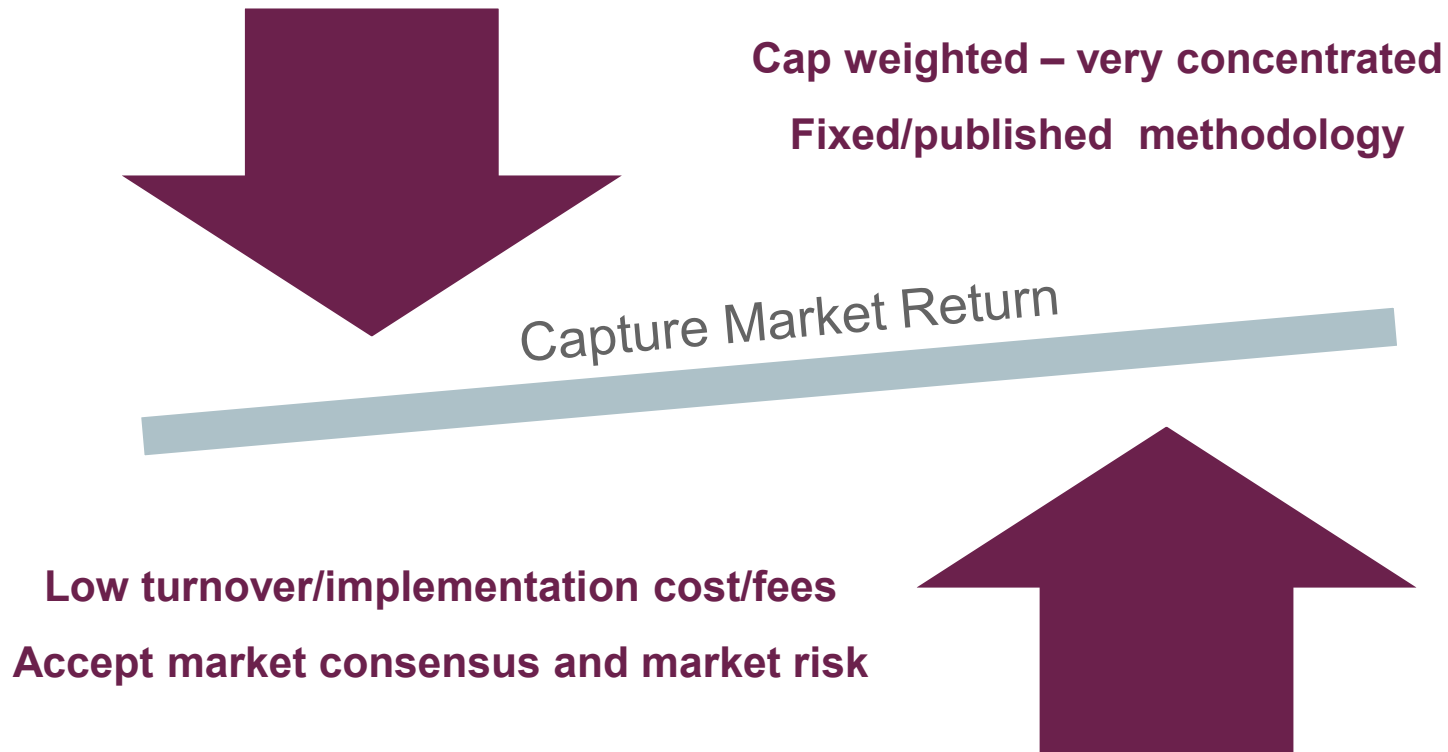
## Contributions of Risk Factors to Cross Sectional Volatility, MSCI EM IMI Index, 12/31/1997 – 12/31/2015



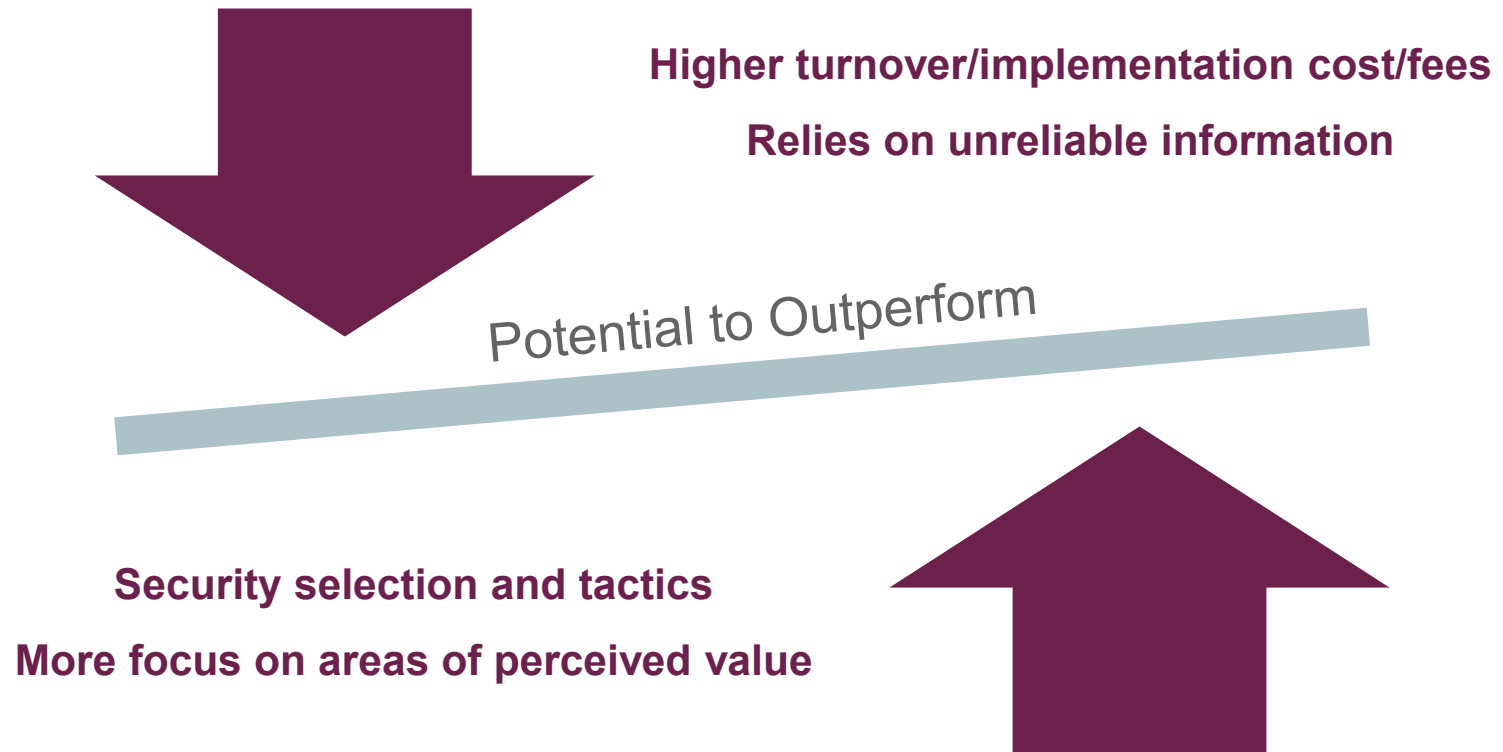
Source: MSCI as of 12/31/2015. This information is provided for illustrative purposes only. It is not possible to invest directly in an index.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

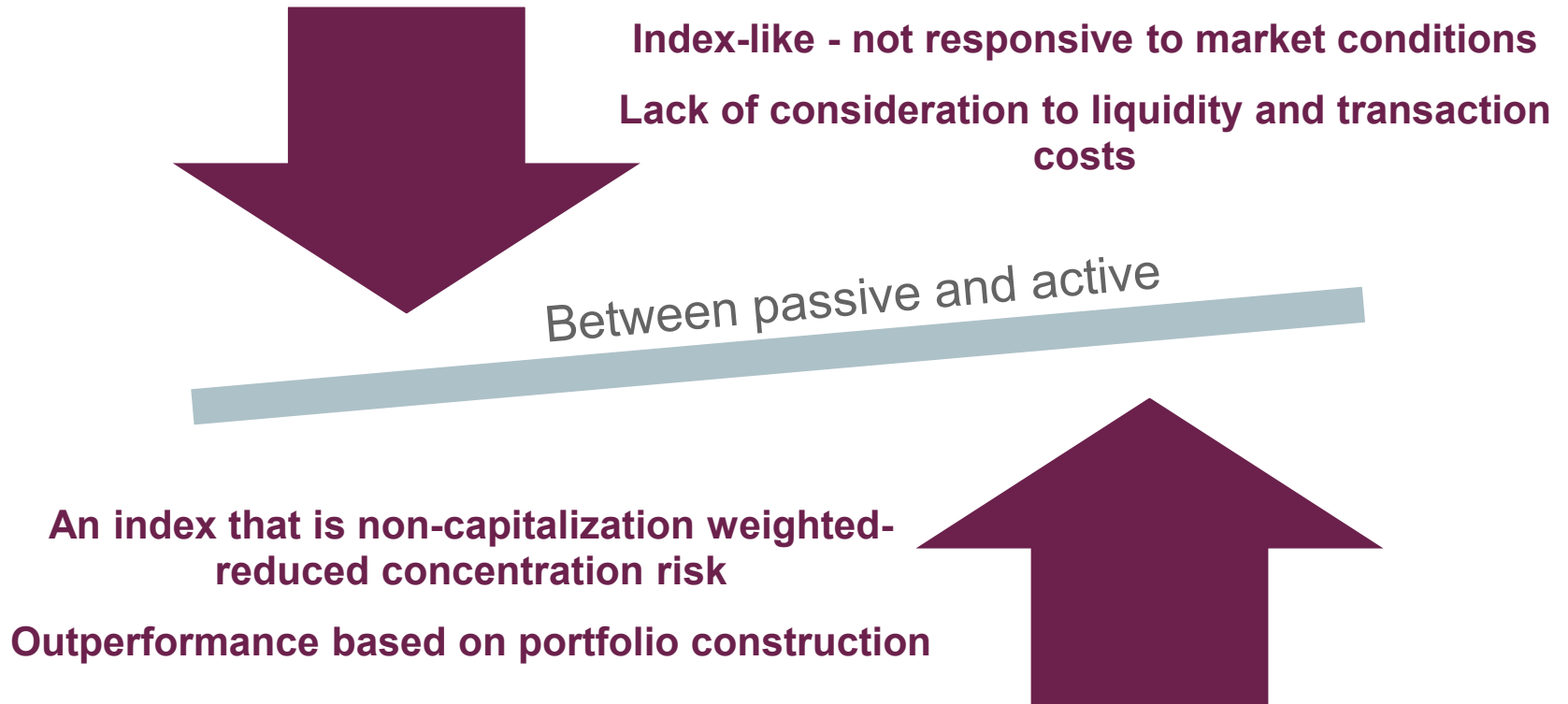
# GETTING EXPOSURE: PASSIVE



# GETTING EXPOSURE: ACTIVE



# GETTING EXPOSURE: SMART BETA



# SYSTEMATIC ALPHA: OUR APPROACH

## Evidence suggests...

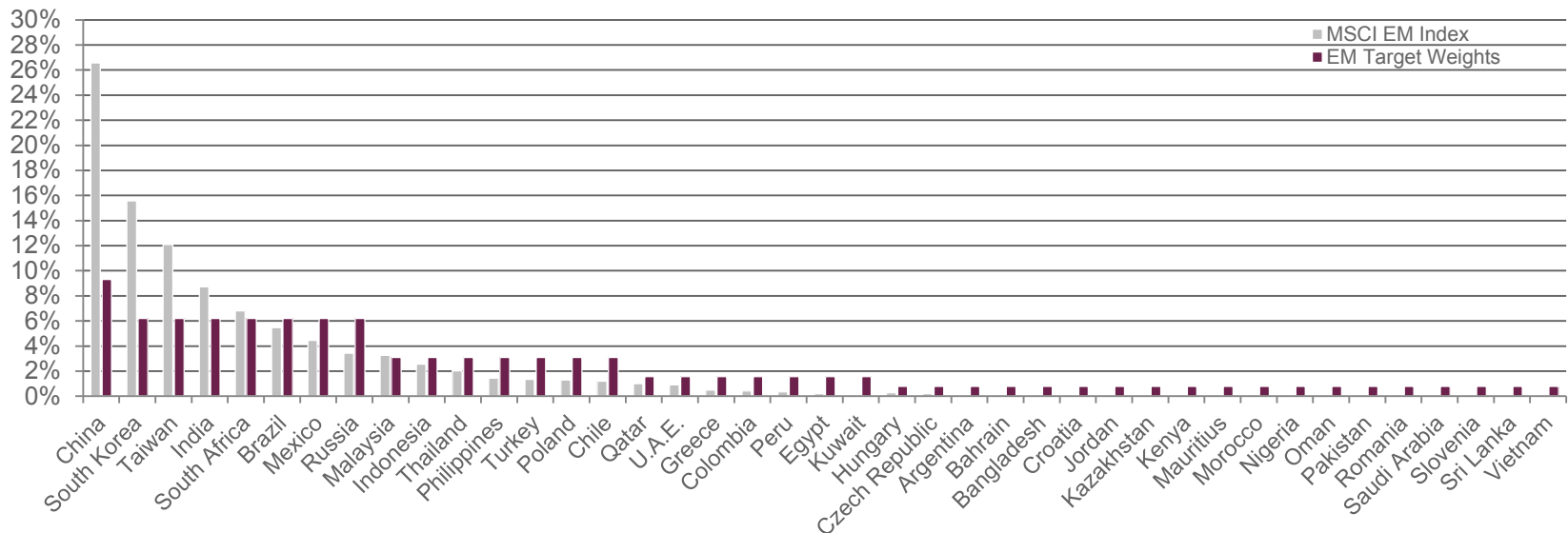
## So we...



**Systematic Alpha is a modified equal-weight approach that is designed to seek outperformance versus the capitalization-weighted benchmark with less risk. We re-weight the portfolio to control concentration risk and dynamically rebalance through time to enhance potential returns and minimize implementation frictions.**

# PARAMETRIC EMERGING MARKETS MODEL PORTFOLIO

Countries are assigned to tiers based upon market capitalization and liquidity. Countries unable to maintain a Tier IV weight are considered Transition Countries.



Tier I: Brazil, China, India, Mexico, Russia, South Africa, South Korea, Taiwan

Tier II: Chile, Indonesia, Malaysia, Philippines, Poland, Thailand, Turkey

Tier III: Colombia, Egypt, Greece, Kuwait, Peru, Qatar, U.A.E.

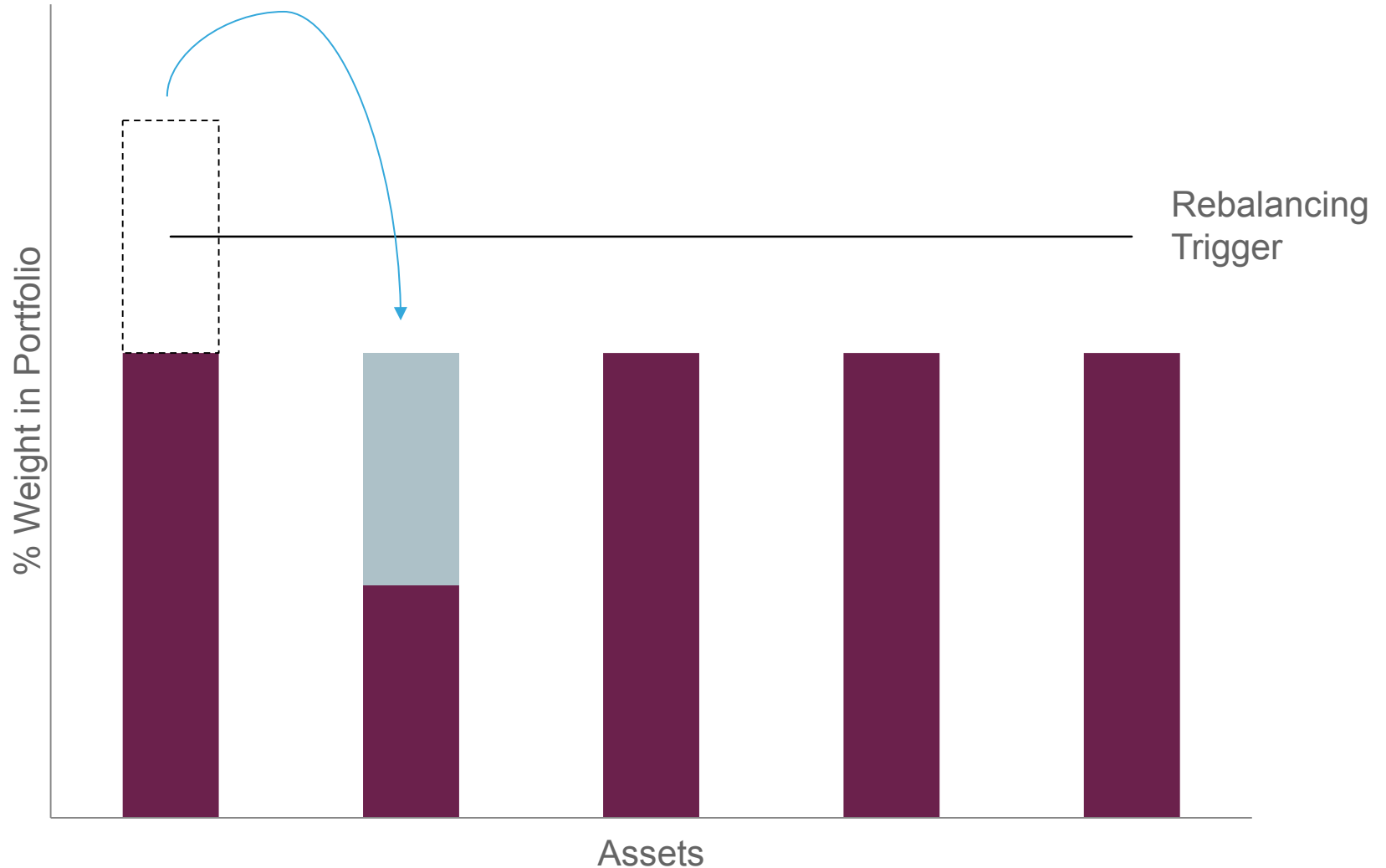
Tier IV: Argentina, Bahrain, Bangladesh, Croatia, Czech Republic, Hungary, Jordan, Kazakhstan, Kenya, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Saudi Arabia, Slovenia, Sri Lanka, Vietnam

Transition Countries: Botswana, Bulgaria, Estonia, Ghana, Latvia, Lebanon, Lithuania, Panama, Tunisia, Ukraine

Source: Parametric and MSCI as of 12/31/2015. Strategy target information presented is for illustrative purposes only as of the date hereof and is subject to change at any time. Actual client portfolio allocation will vary. It is not possible to directly invest in an Index. Please refer to the Disclosure at the end of this presentation for further information.

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.

# TRIGGER-BASED REBALANCING



# SYSTEMATIC ALPHA PORTFOLIOS

## Why?

- Consistent and thoughtful core exposure to an asset class
- Potentially higher returns and lower volatility
- Increased transparency
- Concepts fundamental to investing that work across multiple asset classes

## How?

- Reduce concentrations
- Manage and exploit volatility
- Increasing diversification, reducing volatility, and rebalancing create alpha opportunities
- Reliance upon a forecast of expected returns is not required to obtain these alphas
- Implement efficiently to reduce complexity and costs

# DISCLOSURE

Parametric Portfolio Associates LLC (“Parametric”), headquartered in Seattle, Washington, is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. This material is intended for one-on-one use with ASFIP investment professionals and may not be forwarded or reproduced, in whole or in part, without the written consent of Parametric Compliance.

This information is intended solely to report on 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. Past performance is not indicative of future results. The views and strategies described may not be suitable for all investors. Investing entails risks and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric does 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.

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.

Global market investing, (including developed, emerging and frontier markets) carries additional risks and/or costs including but not limited to: political, economic, financial market, currency exchange, liquidity, accounting, and trading capability risks. Future investments may be made under different economic conditions, in different securities and using different investment strategies. The currency used in all calculations is USD. Currency exchange may negatively impact performance.

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Any specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings vary for each client and there is no guarantee that a particular client’s account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities.

Index information provided is 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 expenses. “MSCI” and MSCI Index names are service marks of MSCI Inc. (“MSCI”) or its affiliates. The strategy is not sponsored, guaranteed or endorsed by MSCI or its affiliates. MSCI makes no warranty or bears any liability as to the results to be obtained by any person or any entity from the use of any such MSCI Index or any data included therein. Standard and Poor’s (“S&P”) is a trademark of the McGraw-Hill Companies, Inc. The strategy is not sponsored, guaranteed or endorsed by S&P, and S&P makes no representation regarding the content of this material. Please refer to the specific service provider’s website for complete details on all indices.

All contents copyright 2016 Parametric Portfolio Associates LLC. All rights reserved. Parametric Portfolio Associates, PIOS, and Parametric with the iris flower logo are all trademarks registered in the US Patent and Trademark Office.

Parametric is located at 1918 8th Avenue, Suite 3100, Seattle, WA 98101. For more information regarding Parametric and its investment strategies, or to request a copy of Parametric’s Form ADV, please contact us at 206.694.5575 or visit our website, [www.parametricportfolio.com](http://www.parametricportfolio.com).

©2016 Parametric Portfolio Associates LLC. This material has been prepared for the exclusive use of ASFIP investment professionals in a one-on-one presentation only.