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This brochure provides information about the qualifications and business practices of Parametric Portfolio Associates LLC (“Parametric”). If you have any questions about the contents of this brochure, please contact Parametric at 206-694-5575. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Parametric is a registered investment adviser under the Investment Advisers Act of 1940 (the “Advisers Act”). Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser.

Additional information about Parametric also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC’s web site also provides information about any persons affiliated with Parametric who are registered as investment adviser representatives of Parametric.

## **Item 2 – Material Changes**

This brochure dated January 28, 2014 is an annually amended document prepared by Parametric according to the SEC's requirements and rules relating to the Form ADV and contains the following material changes from the brochure dated January 31, 2013.

### **Item 4**

- Andrew Abramsky retired as Chief Operating Officer in August 2013 and is now employed as Parametric's Operations Consultant. Mr. Abramsky's responsibilities were reassigned as deemed appropriate.
- Christine Smith was hired as Chief Administrative Officer in May 2013 and now oversees Parametric's operations and administrative functions.
- On December 31, 2012, Parametric purchased The Clifton Group, a registered investment adviser based in Minneapolis, MN. In 2013, following the transaction, Parametric formed Parametric Clifton, an internal business unit dedicated to marketing Parametric investment advisory products to institutional clients. Effective January 2014, Parametric Clifton was expanded to include marketing and client service personnel from each of Parametric's investment centers (Seattle, WA, Minneapolis, MN, and Westport, CT) and may promote all of the strategies offered by Parametric and Parametric Risk Advisors LLC ("PRA") to the institutional marketplace.
- In 2013 Parametric expanded its institutional services. Effective December 31, 2013, applicable composites and portfolios became compliant with the CFA Institute Global Investment Performance Standards ("GIPS®"). Parametric is now comprised of two principal business segments. Parametric Investment & Overlay Strategies is designated as the GIPS compliant firm. Parametric Custom Tax Managed & Centralized Portfolio Management comprises the other business segment and is not included in the GIPS® defined firm.
- Effective November 1, 2013, Parametric purchased the remaining outstanding equity position in PRA. PRA is now a wholly-owned subsidiary of Parametric. No investment activities were affected and no management changes were initiated as a result of the finalization of this transaction.
- Parametric opened an office in Sydney, Australia in 2013. Christopher Briant is the Chief Executive Officer of the Parametric Australasian division.

### **Item 8**

- Risk language was expanded.

### **Additional Information**

- Privacy Statement revised.

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#### Item 4 – Advisory Business

Parametric Portfolio Associates LLC (“Parametric”) is organized as a limited liability company under the laws of the State of Delaware. Parametric has been providing investment advisory services since its formation in 1987. Parametric serves its clients through investment centers located in Seattle, WA and Minneapolis, MN, as well as through its wholly-owned subsidiary, Parametric Risk Advisors LLC, a registered investment adviser located in Westport, CT. Parametric is a majority-owned affiliate of Eaton Vance Corp. (“EVC”), a publicly held company that is traded on the New York Stock Exchange under the ticker symbol EV. Parametric’s principal owners are EVA Holdings, LLC and Eaton Vance Acquisitions. Each is a privately held subsidiary of EVC.

Parametric is a leading global asset management firm offering various Alpha Strategies and Implementation Services to individual and institutional investors around the world. Parametric’s investment decision processes are guided by quantitative, mathematic and rules-based methodologies and proprietary technology. Parametric’s Implementation Services and Alpha Strategies assist clients in meeting their market exposure, risk management, tax management and return objectives in a cost-effective manner. These services may be tailored to meet specific client needs which include but are not limited to: tax managed core equity portfolios for taxable investors, centralized portfolio management, futures and options-based overlay services for clients seeking to securitize cash, balance asset allocations, manage currency and duration exposure, and specialty index strategies. Parametric collaborates with clients to design and implement customized solutions through the application of equities and derivative programs. Clients may impose restrictions on investments in securities or types of securities and set additional investment guidelines as they deem necessary.

Parametric provides portfolio management services to various wrap fee programs sponsored by broker-dealers, banks or other investment advisers. Parametric receives a portion of the wrap fee collected by the program sponsor for its services. Wrap accounts are generally managed in the same or similar manner to other separately managed accounts. However, wrap programs may impose specific restrictions and investment guidelines that are more restrictive than fully discretionary client accounts. In addition, wrap programs may mandate that Parametric direct transactions to a specific broker which may prohibit Parametric from seeking best execution or aggregating trades. As a result, wrap accounts may not achieve the same performance as fully discretionary accounts.

#### Material Events in 2013:

- Effective January 2013, pursuant to Commodities Futures Trading Commission and National Futures Association regulations, Parametric registered under the Commodities Exchange Act as a Commodity Pool Operator. Parametric is currently registered as a Commodity Trading Advisor and a Commodity Pool Operator.
- Andrew Abramsky, the Chief Operating Officer (“COO”) for Parametric, retired in August 2013. He remains on staff as a consultant through February 2014. Mr. Abramsky’s duties as COO were reassigned to other senior managers. Mr. Abramsky and Parametric senior management planned a

transition period for his retirement and there has been no disruption of any management functions.

- Christine Smith was hired in May 2013 as the Chief Administrative Officer of Parametric. At that time, many of the COO's duties were transitioned to Ms. Smith. With the exception of trading oversight, the former COO's responsibilities were transitioned under Ms. Smith's supervision.
- Parametric opened and staffed an office in Sydney, Australia (Suite 3, Level 11, 1 O'Connell Street, Sydney, Australia, NSW 2000) to market its products to institutional "wholesale" clients. Currently, Parametric is exempt from registration under the Australian Corporations Act 2001 (Cth) (Corporations Act) regarding the provisions of financial services to wholesale clients as defined in the Corporations Act and the Australian Securities and Investment Commission's Class Order (CO 03/1100).
- Effective October 31, 2013, Parametric purchased the remaining outstanding equity of PRA. As a result, PRA is now a wholly-owned subsidiary of Parametric. The entire PRA management team, product lines, trading, and operational structures remain in place. PRA management and select marketing personnel may cross market all PRA and Parametric strategies and may be compensated for supporting Parametric marketing activities. Applicable assets are included in the Parametric Investment & Overlay Strategies GIPS® compliant firm definition and marketed as such.
- Effective December 31, 2013 Parametric and PRA formed a GIPS® compliant firm. In doing so, Parametric was divided into two segments: Parametric Investment & Overlay Strategies and Parametric Custom Tax-Managed & Centralized Portfolio Management. For compliance with GIPS®, the firm is defined and held out to the public as "Parametric Investment & Overlay Strategies". Parametric Investment & Overlay Strategies provides rules-based investment management services to institutional investors, individual clients and registered investment vehicles, including Engineered Alpha Strategies, Specialty Index, and Policy Implementation Overlay Services. At the same time, Parametric Clifton consolidated its composites and performance under the new GIPS® compliant firm. The firm has complied with the GIPS® standards retroactive to January 1, 2000. The Parametric Custom Tax-Managed & Centralized Portfolio Management segment is not included in the GIPS® defined firm.
- On December 31, 2012, Parametric purchased The Clifton Group, a registered investment adviser based in Minneapolis, MN. In 2013, following the transaction, Parametric formed Parametric Clifton, an internal business unit dedicated to marketing Parametric investment advisory products to institutional clients. Effective January 2014, Parametric Clifton was expanded to include marketing and client service personnel from each of Parametric's investment centers (Seattle, WA, Minneapolis, MN, and Westport, CT) and may promote all of the strategies offered by Parametric and PRA to the institutional marketplace.

As of December 31, 2013, Parametric had approximately \$110.2 billion in discretionary client assets under management (“AUM”) and \$5.4 billion in non-discretionary client AUM. Approximately \$82.0 billion (including the applicable PRA assets) of the \$115.6 billion are defined under the Parametric Investment & Overlay Strategies GIPS® compliant firm.

## **Item 5 – Fees and Compensation**

All fee schedules are negotiable and will vary by product type, account size, and customization requirements. The standard fee ranges are generally as follows:

Parametric's annual fees for Implementation Services strategies are between 0.15% and 0.50% of assets under management.

Parametric's annual fees for Alpha Strategies are between 0.30% and 1.00% of assets under management.

Certain client portfolios may be customized with specialized index benchmarks which may carry additional fees for individual client use. These fees may be passed on to the individual clients. These pass-through fees will be agreed to in writing prior to implementation of the benchmark strategy. These fees may be charged on a percentage of client portfolio AUM or a flat fee depending on the index or indexes chosen. Fees for these services generally range between 0.05% and 0.10% of client AUM. The fees charged by Parametric are initially confirmed in writing in the client's investment agreement with Parametric. Fees across all of the Parametric products are typically charged as a percentage of the portfolio's AUM. Parametric may assess a minimum quarterly fee to accounts which do not trade or fall below the stated asset minimum during a given period. This minimum account fee is acknowledged in the written client agreement. A monthly reporting fee may also be charged to clients requesting enhanced or specialized monthly or quarterly reports. This monthly or quarterly fee may be added to the quarterly fee. A fixed dollar fee pricing custom quotation is also available. Fees are generally payable quarterly in arrears, but some clients may pay in advance. Clients may be billed directly for fees or authorize Parametric to directly bill fees client custodial accounts. Parametric must have written authorization from the client to invoice the custodial account and the client must receive statements from the custodian in order to comply with regulations. Invoicing the client account does not create a custodial relationship for Parametric as it will have no other authority to direct the removal of funds or securities from the client custodial account except to direct the custodian to settle trading activities.

Clients or Parametric may terminate a contract for any reason. Normally, clients may cancel Parametric's services upon 30 days written notice. During the 30-day period, Parametric's ordinary fees are earned and payable. Parametric may terminate an investment advisory contract by giving 30 days' prior written notice to the client. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

As a general policy, Parametric negotiates fees with Wrap Sponsors or Wrap Providers and not with individuals participating in such programs. However, for specialized portfolio customization, additional fees may be allocated based on the size and complexity of the accounts. In the event of fee schedule

changes, Parametric reserves the right to continue a pre-established fee schedule with current clients that may be more advantageous to than the new or changed schedule.

Parametric's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses. Such expenses will be assessed to the client. Clients may incur certain charges imposed by custodians, brokers and other third-parties, including but not limited to: fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, withholding fees, country tax or delivery fees, wire transfers and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and ETFs also charge management fees which are disclosed in the fund's or ETF's prospectus or offering memorandum. These fees are incremental to Parametric's investment management fee. Clients should consider all fees and expenses prior to investing in any disciplines or securities. External legal fees incurred by Parametric on behalf of the client to establish trading accounts, or incremental fees to create specialized securities such as swaps, are generally billed to the client separately. Such costs are exclusive of and in addition to Parametric's fee, and Parametric does not receive any portion of these payments. Please refer to Item 12 of this brochure regarding Parametric's brokerage practices and the factors that Parametric considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Some custody relationships require a minimum account size, or annual fee. Wrap fee and sub-advisory clients receive a brochure from the introducing sponsor detailing all aspects of the wrap fee or sub-advisory program before selecting Parametric as the sub-advisor. Fees and features of each program offered by the various introducing sponsors will vary. Wrap fee or sub-advisory clients should consult the introducing sponsor's brochure for the specific fees and features applicable to their program. For wrap fee or sub-advised accounts, introducing sponsors and Parametric generally share in a combined service fee charged by the introducing sponsor. Parametric is generally paid a portion of the fee by the introducing sponsor for advisory services, while the introducing sponsor retains the remainder for trade execution, custody, and additional services.

Parametric has written arrangements with certain employees and managers, including but not limited to sales personnel, that define payments, commissions, and incentives made to these individuals. In addition, PRA, Eaton Vance Distributors, Inc. ("EVD") (an affiliated broker-dealer and distributor of investment company funds), Eaton Vance Management, ("EVM") (an affiliated registered investment adviser), Eaton Vance Management (International) Limited ("EVMi") (an affiliated investment manager registered under the United Kingdom Financial Conduct Authority), may have services and products that may be cross-marketed by/through/along with products and services managed at Parametric. Joint marketing agreements and fee sharing arrangements are on file to address all such relationships. Clients are not billed for shared-fee related accounts. Parametric personnel who are properly licensed through EVD may receive a portion of the fees earned through EVD mutual fund sales.

#### **Item 6 – Performance-Based Fees and Side-By-Side Management**

In some cases, Parametric has entered into performance fee arrangements with qualified clients; such fees are subject to individualized negotiation with each such client. Parametric will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Advisers Act in accordance with the

available exemptions thereunder, including the exemption set forth in Rule 205-3. In measuring a client's assets for the calculation of performance-based fees, Parametric shall include realized and unrealized capital gains and losses. Although such fee arrangements create an incentive to favor higher fee paying accounts over other accounts when allocating investment opportunities, Parametric has procedures designed and implemented to ensure that all clients are treated fairly and equally. Parametric is a rules-based manager and as such, performance-based accounts are integrated with all other accounts in the optimization process. This process is tracked as an aid in addressing the inherent conflicts associated with the allocation of investment opportunities across separately managed and performance-based fee accounts.

The performance-based component of a fee may be negotiated for any part of the fee up to 100%. Performance-based fees are dependent on the achievement of an annualized performance objective relative to an agreed upon external index or benchmark (e.g., S&P 500 Index, Barclays Capital Intermediate Government Corporate Index, or 90 Day Treasury Bills). Fees for custom designed or specialized strategies, and strategies comprised of more than one Parametric product are negotiable and are dependent upon the degree of complexity and creativity involved, the expected time period over which the service is to be performed, and the value of portfolio assets to be managed.

### **Side-by-Side Management**

In some instances, Parametric manages private funds and separately managed accounts ("SMAs") in the same or similar strategies. This may give rise to potential conflicts of interest if the private funds and SMAs have, among other things, different objectives, benchmarks or fees (i.e. performance fees). For example, potential conflicts may arise in the following examples:

- The portfolio manager must allocate time and investment ideas across private funds and SMAs;
- Private funds' or SMAs' orders are not fully executed on the same day;
- Trades may get executed for an SMA that may adversely impact the value of securities held by a private fund;
- SMAs or private funds may receive an allocation of an investment opportunity when other SMAs, for various reasons, including but not limited to cash flow availability, do not; and/or
- Trading and securities selected for a particular private fund or SMA may cause differences in the performance of different SMAs or private funds that have similar strategies.

Parametric has adopted trade allocation procedures and monitors such transactions to help ensure Parametric managers do not favor private funds or SMAs over each other, as well as to help ensure fair and equitable treatment of both the private funds and SMAs. During periods of unusual market conditions, Parametric may deviate from its stated trade allocation practices. There can be no assurance, however, that all conflicts have been identified or addressed for all situations.



## **Item 7 – Types of Clients**

Parametric provides portfolio management services to high net-worth individuals, corporations, corporate pension and profit-sharing plans, Taft-Hartley plans, other pooled investment vehicles, banking and thrift institutions, charitable institutions, foundations, endowments, state, municipal and federal government entities, registered investment companies, private investment funds, trust programs, other investment advisers, sovereign funds, foreign registered and private funds, other U.S. and international institutions, and individual accounts. Parametric generally has a minimum account size of \$10 million for opening a direct account.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods of Analysis**

In providing investment advisory services to its clients, Parametric utilizes quantitative, mathematic and rules-based methods of analysis. Parametric has designed proprietary models and technology that guide its investment decision making processes. Investment strategies employed are generally customized to address the specific needs of the client. As a result, the client's portfolio will be constructed using only the securities from the client's specified benchmark. For an account using an overlay strategy, the securities or derivatives selected are based on the client's underlying portfolio. Parametric's quantitative methodologies consider risks, expenses and other portfolio characteristics when making investment decisions. Parametric does not conduct fundamental analysis nor does it rely on security-specific research, analysis or forecasting.

### **Investment Strategies**

Parametric offers a variety of rules-based, risk-controlled investment strategies to address the specific investment objectives of its clients. In pursuing these strategies, Parametric may invest in a wide range of securities and other financial instruments across various asset classes. Parametric recognizes that no investment strategy will achieve positive performance results in every political, economic and market environment. Investing in securities and other financial instruments involves the risk of total loss of all assets under management. Parametric serves clients through two categories of offerings: Implementation Services and Alpha Strategies. Although many strategies are customized to fit the client's needs, the primary investment strategies offered by Parametric, including material risks relevant to each, are provided below.

The investment methodologies and material risks described below for each investment strategy are not comprehensive. Parametric executes its investment strategies on behalf of individual and institutional investors around the world, each with a unique set of investment objectives, restrictions, tax considerations and risk tolerances. As such, Parametric may modify a strategy to meet the specific needs of a client. As a result, a particular investment strategy may involve additional risks not identified below.

## **Implementation Services**

### **Tax-Managed Core**

Parametric offers the Tax-Managed Core (“TMC”) strategies to taxable investors. The investment objective of each TMC strategy is to provide pre-tax performance that tracks the assigned index, while minimizing net realized capital gains to provide improved returns over the designated benchmark on an after-tax basis. This is achieved by utilizing tax-efficient trading methodologies whenever possible. The TMC strategies can be benchmarked to any standard or customized index, including but not limited to the S&P 500, the Russell 1000, and MSCI EAFE. TMC strategies will invest directly in a subset of the securities which make up the client-selected index. The TMC strategies generally invest in equity securities but may also invest in other securities to the extent they are a member of the client-selected index.

The TMC strategies are subject to material risks, including one or more of the following: Active Management Risk, Equity Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, Tax-Managed Investing Risk, Tax Risk, and Tracking Error Risk. Not all of these risks apply to each TMC strategy. The specific risks associated with each TMC strategy depends on the client-selected index, portfolio management techniques and tax considerations. Parametric does not hold itself out as a tax advisor or consultant and does not provide such services.

Parametric applies the highest U.S. federal marginal tax rate plus the Net Investment Income Tax rate to evaluate the after-tax performance of TMC portfolios. Applying the highest marginal rate may cause the after tax performance to be substantially different from an individual client experience. There is a material risk that personal taxes, carry forwards, and other taxes may materially affect the actual net returns to the client.

For a summary of each risk, see *Summary of Material Risks* below.

### **Traditional Overlay - Policy Implementation Overlay Services (PIOS®)**

Traditional Overlay is a comprehensive set of custom overlay strategies that seek to achieve investment objectives through information technology and adherence to detailed investment management guidelines. The program’s objectives are to seek to increase expected portfolio returns, improve fund liquidity, and reduce performance risk relative to policy benchmarks. Traditional Overlay is intended to be a risk neutral strategy relative to the target mix defined by the client. When the Traditional Overlay portfolio is combined with the client’s underlying portfolio, it should produce volatility similar to that of the benchmark portfolio. Overlays of client designated “cash equivalent” positions (e.g. hedge fund of funds) may also be a part of the program. Leverage is not employed unless desired by the client. Clients may use Traditional Overlay for cash securitization, rebalancing, transition management, interest rate and currency management tools. Traditional Overlay utilizes exchange-traded instruments, over-the-counter (“OTC”) instruments, and other financial products to achieve its objective.

Traditional Overlay strategies are subject to material risks, including one or more of the following: Active Management Risk, Currency Risk, Derivatives Risk, Equity Risk, ETF Risk, ETN Risk, General Investing Risk, Market Risk, and Tracking Error Risk. Not all of these risks apply to each Traditional Overlay strategy. The specific risks associated with each Traditional Overlay strategy depends on the client's investment objective and the types of instruments used to achieve the objective. For a summary of each risk, see *Summary of Material Risks* below.

### **Passive or Custom Beta**

Passive Beta Strategies use physical and/or synthetic instruments, such as futures, to obtain desired exposure to a specific benchmark index. The Passive Beta Strategies consist of the following:

The Standard Index Mandate Strategy – uses physical and synthetic instruments to obtain desired exposure to a specific index. The strategy is subject to the following material risks: Active Management Risk, Derivative Risk, Equity Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Passive Index Management of Nominal Sovereign Securities Strategy uses physical securities to create and maintain desired exposure to sovereign securities. The strategy is subject to the following material risks: Active Management Risk, Concentration Risk, Currency Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Passive Index Management of Treasury Securities Strategy uses physical securities to create and maintain desired exposure to treasury securities. The strategy is subject to the following material risks: Active Management Risk, Concentration Risk, Derivatives Risk, Duration Risk, ETF Risk, General Investing Risk, Interest Rate Risk, Market Risk, Maturity Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Passive Index Management of Exchange-Traded Funds (“ETFs”) Strategy uses physical securities (ETFs) to create and maintain desired exposure. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

### **Centralized Portfolio Management**

Centralized Portfolio Management (“CPM”) is an investment management offering that is customized to address the investment objective, risk tolerance, and tax considerations of each client. The investment objective of a CPM account is to provide—within a single coordinated portfolio—the pre-tax return of a combination of asset managers or styles while seeking to maintain control over total portfolio risk and taxes. CPM utilizes the expertise of multiple preferred managers who provide investment recommendations for their respective asset class to Parametric, which serves as the centralized portfolio

manager. Parametric considers all of the managers' recommendations and, using proprietary technology, executes those trades that best serve the portfolio's needs - coordinated account rebalancing, enhanced tax lot management and processes developed to improve risk management. CPM portfolios generally invest exclusively in equity securities but may also invest in other security types to the extent that the customized strategy permits the use of non-equity securities.

CPM strategies are subject to material risks, including one or more of the following: Active Management Risk, Equity Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, Tax-Managed Investing Risk and Tracking Error Risk. Not all of these risks apply to each CPM strategy. The specific risks associated with each CPM strategy depend on the client's investment objective and the types of instruments used to achieve the objective. For a summary of each risk, see *Summary of Material Risks* below.

### **Enhanced Beta**

Enhanced Beta Strategies use securities or synthetic instruments to obtain desired exposure to a specific benchmark index. Depending on the specific application, underlying collateral management may or may not be incorporated. The goal of Enhanced Beta is to generate outperformance versus the stated benchmark. Enhanced Beta is funded exposure. In most cases, a portion of the portfolio is maintained in money market holdings for required variation margin while the balance is invested in high-quality fixed-income positions or cash equivalent positions. Enhanced returns are generated through management of high-quality fixed-income and enhanced cash equivalent collateral portfolio positions. Return expectations are influenced by the cash management and enhanced cash guidelines selected by the client. The Enhanced Beta Strategies consist of the following:

The Enhanced Core Fixed Income Strategy seeks performance returns above a designated Fixed Income benchmark index over time. The strategy consists of measured long positions in fixed-income futures contracts to a targeted duration level and an actively managed high-grade collateral portfolio. Options contracts may also be utilized. Contracts are purchased in sufficient quantities in order to provide an effective portfolio duration that matches the duration of the benchmark index such as the Barclays Capital Aggregate Index. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Duration Risk, General Investing Risk, Income Risk, Interest Rate Risk, Market Risk, Maturity Risk, Option Strategy Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Enhanced U.S. Large Cap Strategy seeks performance returns above the S&P 500 Index while exhibiting risk levels similar to the S&P 500 Index. The strategy consists of long S&P 500 futures contracts or other equivalent positions in a quantity consistent with the desired portfolio value. A portion of the portfolio is maintained in a high grade collateral portfolio. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, General Investing Risk, Leverage Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Enhanced U.S. Small Cap Strategy seeks performance returns above the Russell 2000 Index while exhibiting risk levels similar to the Russell 2000 Index. The strategy consists of long Russell 2000 futures contracts or other equivalent index positions in a quantity consistent with desired portfolio value. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, General Investing Risk, Leverage Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Enhanced Commodities Strategy seeks performance returns above the return of the benchmark (e.g. DJ-UBS, GSCI). The strategy consists of futures contracts, roll management, custom weightings, and custom rebalancing in addition to a high-grade collateral portfolio. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Concentration Risk, Derivatives Risk, General Investing Risk, Hedge Correlation Risk, Leverage Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

### **Defensive Equity**

The Defensive Equity strategy seeks to produce significantly lower return volatility and consistently favorable risk-adjusted returns compared to a fully invested equity portfolio. Over a full market cycle, the return objective of the strategy is to outperform a fully invested equity portfolio by 100-150 basis points annualized, with 40% lower risk as measured by standard deviation of returns. The Defensive Equity Strategy creates implicit downside protection through a core position in the S&P 500 and Treasury Bills, combined with fully covered short equity index call and put options (no leverage). Defensive Equity uses a disciplined implementation process that adapts to changing market volatility without the need for market timing or forecasts. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, ETF Risk, ETN Risk, General Investing Risk, Interest Rate Risk, Market Risk, Maturity Risk, Option Strategy Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

### **Alpha Strategies**

#### **Systematic Alpha**

Parametric offers the following Alpha Strategies each of which seek to outperform a capitalization-weighted index by investing in a core equity portfolio that is less concentrated and bears lower risk. To achieve this objective Parametric uses a modified equal-weight strategy with systematic rebalancing. The strategies do not rely on forecasting but derive their extra growth from systematically diversifying and rebalancing the client's portfolio.

The Parametric U.S. Equity Strategy invests primarily in a diversified portfolio of equity securities of companies domiciled in the U.S. The strategy's primary investment objective is to seek long-term capital appreciation by investing in securities which are representative of the major industries within each market in order to participate in the potential growth of these markets. This strategy is also offered in a tax-managed account. The strategy is subject to the following material risks: Active Management Risk,

Equity Investment Risk, ETF Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric International Equity Strategy invests primarily in a diversified portfolio of equity securities of companies domiciled in developed markets outside of the U.S. The strategy may also invest in equity securities of companies located in emerging market countries. The strategy's primary investment objective is to seek long-term capital appreciation by investing in securities which are representative of the major industries within each market in order to participate in the potential growth of these markets. This strategy is also offered in a tax-managed account. The strategy is subject to the following material risks: Active Management Risk, Equity Investment Risk, Derivatives Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Global Equity Strategy invests primarily in a diversified portfolio of equity securities of companies domiciled in the U.S. and the developed markets outside of the U.S. The strategy may also invest in equity securities of companies located in emerging market countries. The strategy's primary investment objective is to seek long-term capital appreciation by investing in securities which are representative of the major industries within each market in order to participate in the potential growth of these markets. This strategy is also offered in a tax-managed account. The strategy is subject to the following material risks: Active Management Risk, Equity Investment Risk, Derivatives Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Global Small Cap Equity Strategy invests primarily in a diversified portfolio of equity securities of small-cap companies in various foreign countries and in the U.S. The strategy may also invest in equity securities of small-cap companies located in emerging market countries. The strategy's primary investment objective is to seek long-term capital appreciation. The strategy is subject to the following material risks: Active Management Risk, Equity Investment Risk, Derivatives Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Emerging Markets Equity Strategy invests primarily in a diversified portfolio of equity securities of companies located in emerging and frontier market countries. Emerging and frontier market countries are generally countries not considered to be developed market countries, and therefore are not included in the MSCI World Index. The investment objective is to buy and hold securities, which are representative of the major industries within each market, in order to participate in the potential growth of these markets. This strategy is also offered in a tax-managed account. The strategy is subject to the following material risks: Active Management Risk, Equity Investment Risk, Derivatives Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Market Risk, Quantitative Management

Risk, Small Companies Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Commodity Strategy invests primarily in a portfolio comprised of commodity futures contracts, which are fully backed by cash collateral invested in U.S. Treasury bonds. The investment objective is to provide a broad-based, long-only portfolio of commodities to capture the potential diversifying and inflation-fighting characteristics of the asset class. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Concentration Risk, Credit Risk, Derivatives Risk, Duration Risk, ETF Risk, General Investing Risk, Income Risk, Interest Rate Risk, Leverage Risk, Market Risk, Maturity Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Currency Strategy invests primarily in a portfolio generally comprised of at least 80% of its net assets in instruments that create exposure to currencies other than the U.S. dollar. The investment objective is to protect against depreciation of the U.S. dollar relative to other currencies. The strategy is subject to the following material risks: Active Management Risk, Currency Risk, Derivatives Risk, ETF Risk, Foreign and Emerging Markets Risk, General Investing Risk, Hedge Correlation Risk, Market Risk, Option Strategy Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Parametric Multi-Strategy Absolute Return Strategy is a multi-asset class portfolio of substantially off-setting long and short exposures to securities, commodities, and currencies. The investment objective is to seek total return through broad exposure among developed and emerging country securities, economic sectors, commodities, and currencies, while following a generally market-neutral strategy. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Currency Risk, Credit Risk, Derivatives Risk, Equity Risk, Foreign and Emerging Markets Risk, General Investing Risk, Hedge Correlation Risk, Leverage Risk, Market Risk, Option Strategy Risk, Quantitative Management Risk, Short Sales Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

## **Risk Parity**

Parametric offers the following Risk Parity strategies to institutional investors. These asset allocation strategies seek to spread portfolio risk equally across asset classes, with the objective of creating portfolios that are balanced and thus have greater expected risk-adjusted returns than typical institutional portfolios. This approach combines a disciplined, risk-balanced, allocation structure with passive implementation through the exclusive use of physical securities, futures-based instruments, or centrally cleared swaps.

The Global Balanced Risk Parity strategy combines a disciplined, risk balanced, allocation structure with passive implementation through the exclusive use of either physical securities or futures based instruments. The strategy focuses on risk allocation across multiple dimensions (asset class, economic cycles, and behavioral markets) as the central framework of the allocation structure and includes an allocation to volatility to enhance performance in extreme environments. The strategy utilizes disciplined

rebalancing within defined thresholds and is fully transparent – no over-the-counter instruments. The strategy seeks to achieve greater expected risk-adjusted return (higher Sharpe ratio) than traditional balanced portfolios. The strategy may employ leverage to achieve a balance of risk across various risk exposures. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Credit Risk, Derivatives Risk, Equity Risk, ETF Risk, General Investing Risk, Hedge Correlation Risk, Inflation-Linked Security Risk, Interest Rate Risk, Leverage Risk, Market Risk, Maturity Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Global Balanced Risk Completion Manager Strategy is designed to complement a client's existing assets such that the entire portfolio becomes more risk balanced. When combined with other assets from the client's portfolio, the strategy seeks to produce a greater risk-adjusted return. The strategy is implemented via physical securities and overlay exposure utilizing liquid, non-bilateral OTC instruments. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Credit Risk, Derivatives Risk, Equity Risk, ETF Risk, General Investing Risk, Hedge Correlation Risk, Inflation-Linked Security Risk, Interest Rate Risk, Leverage Risk, Market Risk, Maturity Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Global Balanced Risk Contraction Portfolio Strategy is a component of the Global Balanced Risk Strategy designed to generate excess returns during periods of below-trend economic growth and above-trend inflation—periods in which typical portfolios lag return expectations. The Contraction Strategy seeks to improve the risk-adjusted returns of an overall portfolio through greater diversification. Parametric's approach combines a proprietary risk allocation structure implemented passively through the exclusive use of liquid, non-bilateral OTC instruments. The strategy may employ leverage to meet individual client goals and objectives. The strategy is subject to the following material risks: Active Management Risk, Commodities Risk, Credit Risk, Derivatives Risk, Equity Risk, ETF Risk, General Investing Risk, Hedge Correlation Risk, Inflation-Linked Security Risk, Interest Rate Risk, Leverage Risk, Market Risk, Maturity Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

## **Options Based Strategies**

Parametric offers customized options overlay strategies designed to avert potential losses associated with changes in a particular investment or asset class, generate supplemental income, or gain contingent asset class exposure.

The Equity Option Hedging Strategy utilizes exchange-traded and OTC options on indexes, exchange traded futures, or ETFs to help clients manage their equity risk or to enhance portfolio yield. Leverage is not employed unless desired by the client. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, ETF Risk, General Investing Risk, Hedge Correlation Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.



The Interest Rate Option Strategy utilizes exchange-traded futures or OTC swaps to help clients manage their risk to interest rates or to enhance portfolio yield. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, General Investing Risk, Hedge Correlation Risk, Interest Rate Risk, Leverage Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Dynamic Call Selling Strategy seeks to improve expected performance through the “harvesting” of overvalued index option premiums. Portfolio volatility is reduced in exchange for the willingness to limit upside profit potential. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, General Investing Risk, Hedge Correlation Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

The Dynamic Put Selling Strategy seeks to improve expected performance through the “harvesting” of overvalued option premiums. Portfolio volatility is increased in exchange for premium associated with seeking to own equities at lower price levels. The strategy is subject to the following material risks: Active Management Risk, Derivatives Risk, Equity Risk, General Investing Risk, Hedge Correlation Risk, Market Risk, Quantitative Management Risk, and Tracking Error Risk. For a summary of each risk, see *Summary of Material Risks* below.

### **Summary of Material Risks**

*Active Management Risk.* The success of a client’s account that is actively managed depends upon the investment skills and analytical abilities of the portfolio manager to develop and effectively implement strategies that achieve the client’s investment objective. Subjective decisions made by the portfolio manager may cause a client portfolio to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

*Commodities Risk.* The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, which may include weather, embargoes, tariffs, and health, political, international and regulatory developments. Economic and other events (whether real or perceived) can reduce the demand for commodities, which may reduce market prices and cause the value of a client portfolio to fall. The frequency and magnitude of such changes cannot be predicted. Exposure to commodities and commodities markets may subject a client portfolio to greater volatility than investments in traditional securities. No active trading market may exist for certain commodities investments, which may impair the ability to sell or to realize the full value of such investments in the event of the need to liquidate such investments. In addition, adverse market conditions may impair the liquidity of actively traded commodities investments. Certain types of commodities instruments (such as total return swaps and commodity-linked notes) are subject to the risk that the counterparty to the instrument will not perform or will be unable to perform in accordance with the terms of the instrument.

*Concentration Risk.* A strategy that concentrates its investments in a particular sector of the market (such as the utilities or financial services sectors) or a specific geographic area (such as a country or state) may

be impacted by events that adversely affect that sector or area and the value of a portfolio using such a strategy may fluctuate more than that of a less concentrated portfolio.

*Currency Risk.* In general, the value of investments in, or denominated in, foreign currencies increase when the U.S. dollar is weak (*i.e.*, is losing value relative to foreign currencies) or when foreign currencies are strong (*i.e.*, are gaining value relative to the U.S. dollar). When foreign currencies are weak or the U.S. dollar is strong, such investments generally will decrease in value. The value of foreign currencies as measured in U.S. dollars may be unpredictably affected by changes in foreign currency rates and exchange control regulations, application of foreign tax laws (including withholding tax), governmental administration of economic or monetary policies (in the U.S. or abroad), intervention (or the failure to intervene) by U.S. or foreign governments or central banks, and relations between nations. A devaluation of a currency by a country's government or banking authority will have a significant impact on the value of any investments denominated in that currency. Currency markets generally are not as regulated as securities markets and currency transactions are subject to settlement, custodial and other operational risks. Exposure to foreign currencies through derivative instruments will be subject to *Derivatives Risks* described above.

*Credit Risk.* Debt obligations are subject to the risk of non-payment of scheduled principal and interest. Changes in economic conditions or other circumstances may reduce the capacity of the party obligated to make principal and interest payments on such instruments and may lead to defaults. Such non-payments and defaults may reduce the value of, or income distributions from, a client portfolio. The value of a fixed income security also may decline because of concerns about the issuer's ability to make principal and interest payments. In addition, the credit ratings of debt obligations may be lowered if the financial condition of the party obligated to make payments with respect to such instruments changes. Credit ratings assigned by rating agencies are based on a number of factors and do not necessarily reflect the issuer's current financial condition or the volatility or liquidity of the security. In the event of bankruptcy of the issuer of debt obligations, a client portfolio could experience delays or limitations with respect to its ability to realize the benefits of any collateral securing the instrument. In order to enforce its rights in the event of a default, bankruptcy or similar situation, a client may be required to retain legal or similar counsel at its own expense.

*Derivatives Risk.* The use of derivatives can lead to losses because of adverse movements in the price or value of the asset, index, rate or instrument underlying a derivative, due to failure of the counterparty or due to tax or regulatory constraints. In this context, Derivatives include but are not limited to: futures, forwards, options, participatory notes, warrants, and other similar instruments that may be valued based upon another or related asset. Derivatives may create economic leverage in a client portfolio, which magnifies the portfolio's exposure to the underlying investment. Derivatives risk may be more significant when derivatives are used to enhance return or as a substitute for a position or security, rather than solely to hedge the risk of a position or security held by a client portfolio. Derivatives for hedging purposes may not reduce risk if they are not sufficiently correlated to the position being hedged. A decision as to whether, when and how to use derivatives involves the exercise of specialized skill and judgment, and a transaction may be unsuccessful in whole or in part because of market behavior or unexpected events. Derivative instruments may be difficult to value, may be illiquid, and may be subject to wide swings in valuation caused by changes in the value of the underlying instrument. If a derivative counterparty is

unable to honor its commitments, the value of a client portfolio may decline and/or the portfolio could experience delays in the return of collateral or other assets held by the counterparty. The loss on derivative transactions may substantially exceed the initial investment. Certain strategies may use derivatives extensively.

*Swap Risk.* The use of swap transactions is a highly specialized activity which involves strategies and risks different from those associated with ordinary portfolio security transactions. Incorrectly forecasting default risks, market spreads or other applicable factors or events may significantly affect investment performance. Swaps are highly illiquid and not easily traded away. The portfolio generally may only close out a swap or other two-party contract with its particular counterparty, and generally may only transfer a position with the consent of that counterparty. In addition, the price at which the portfolio may close out such a two-party contract may not correlate with the price change in the underlying reference asset. If the counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) defaults, there can be no assurance that the counterparty will be able to meet or enforce the contractual obligations. It also is possible that developments in the derivatives market, including changes in government regulation, could adversely affect the manager's ability to terminate existing swap or other agreements or to realize amounts to be received under such agreements.

*Duration Risk.* Duration measures the expected life of a fixed-income security, which can determine its sensitivity to changes in the general level of interest rates. Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. A portfolio with a longer dollar-weighted average duration can be expected to be more sensitive to interest rate changes than a portfolio with a shorter dollar-weighted average duration. Duration differs from maturity in that it considers a security's coupon payments in addition to the amount of time until the security matures. As the value of a security changes over time, so will its duration.

*Equity Risk.* The strategy may be sensitive to stock market volatility and the stocks in which it invests may be more volatile than the stock market as a whole. The value of stocks and related instruments may decline in response to conditions affecting the general economy; overall market changes; local, regional or global political, social or economic instability; and currency, interest rate and commodity price fluctuations, as well as issuer or sector specific events. Market conditions may affect certain types of stocks (such as large-cap or growth stocks) to a greater extent than other types of stocks. If the stock market declines, the value of a portfolio will also likely decline and although stock values can rebound, there is no assurance that values will return to previous levels.

*ETF Risk.* Investing in an exchange-traded fund ("ETF") exposes a client portfolio to all of the risks of that ETF's investments and subjects it to a pro rata portion of the ETF's fees and expenses. As a result, the cost of investing in ETF shares may exceed the costs of investing directly in its underlying investments. ETF shares trade on an exchange at a market price which may vary from the ETF's net asset value. ETFs may be purchased at prices that exceed the net asset value of their underlying investments and may be sold at prices below such net asset value. Because the market price of ETF shares depends on the demand in the market for them, the market price of an ETF may be more volatile than the underlying

portfolio of securities the ETF is designed to track, and a client account may not be able to liquidate ETF holdings at the time and price desired, which may impact its performance.

*ETN Risk.* An exchange-traded note (“ETN”) is a debt obligation and its payments of interest or principal are linked to the performance of a referenced investment (typically an index). ETNs are subject to the performance of their issuer and may lose all or a portion of their entire value if the issuer fails or its credit rating changes. An ETN that is tied to a specific index may not be able to replicate and maintain exactly the composition and weighting of the components of that index. ETNs also incur certain expenses not incurred by the referenced investment and the cost of owning an ETN may exceed the cost of investing directly in the referenced investment. The market trading price of an ETN may be more volatile than the referenced investment it is designed to track. ETNs may be purchased at prices that exceed net asset value and may be sold at prices below such value. A client account may not be able to liquidate ETN holdings at the time and price desired, which may impact its performance.

*Foreign, Emerging and Frontier Markets Risk.* The value of a client portfolio can be adversely affected by changes in currency exchange rates and political and economic developments across multiple borders. In emerging or less developed countries, these risks can be more significant. Investment markets in emerging market countries are typically substantially smaller, less liquid and more volatile than the major markets in developed countries, and as a result, the value of a portfolio investing in these markets may be more volatile. Emerging and frontier market countries may have relatively unstable governments and economies. Emerging and frontier market investments often are subject to speculative trading, which typically contributes to volatility. Trading in foreign, emerging and frontier markets typically involves higher expense than trading in the United States. A client portfolio investing in these markets may have difficulties enforcing its legal or contractual rights in a foreign country. Depositary receipts are subject to many of the risks associated with investing directly in foreign securities, including political and economic risks.

*General Investing Risks.* Most investment strategies are not intended to be a complete investment program. Clients generally should have a long-term investment perspective and be able to tolerate potentially sharp declines in value and/or investment losses. Investment advisers, other market participants and many securities markets are subject to rules and regulations and the jurisdiction of one or more regulators. Changes to applicable rules and regulations could have an adverse effect on securities markets and market participants, as well as on the ability to execute a particular investment strategy.

*Hedge Correlation Risk.* Certain strategies seek to maintain substantially offsetting exposures and follow a generally market-neutral approach. Hedging instruments utilized for these strategies may not maintain the intended correlation to the investment being hedged or may otherwise fail to achieve their intended purpose. Failure of the hedge instruments to track a client portfolio’s investments could result in the client portfolio having substantial residual exposure to market risk.

*Income Risk.* A portfolio’s ability to generate income will depend on the yield available on the securities held by the portfolio. In the case of equity securities, changes in the dividend policies of companies held by a client portfolio could make it difficult for the portfolio to generate a predictable level of income. The use of dividend capture strategies to generate income will expose a client portfolio to higher portfolio

turnover, increased trading costs and potential for capital loss or gain, particularly in the event of significant short-term price movements of stocks subject to dividend capture trading.

*Inflation-Linked Security Risk.* Inflation-linked debt securities are subject to the effects of changes in market interest rates caused by factors other than inflation (real interest rates). In general, the price of an inflation-linked security tends to decrease when real interest rates increase and can increase when real interest rates decrease. Interest payments on inflation-linked securities may vary widely and will fluctuate as the principal and interest are adjusted for inflation. Any increase in the principal amount of an inflation-linked debt security will be taxable ordinary income, even though the portfolio will not receive the principal until maturity. There can be no assurance that the inflation index used will accurately measure the real rate of inflation in the prices of goods and services. A portfolio's investments in inflation-linked securities may lose value in the event that the actual rate of inflation is different than the rate of the inflation index.

*Interest Rate Risk.* 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 thereby be more exposed to interest rate risk than a strategy focused on total return.

*Leverage Risk.* Certain types of investment transactions may give rise to a form of leverage. Such transactions may include, among others, the use of when-issued, delayed delivery or forward commitment transactions, residual interest bonds, short sales and certain derivative transactions. A client portfolio may be required to segregate liquid assets or otherwise cover the portfolio's obligation created by a transaction that may give rise to leverage. To satisfy the portfolio's obligations or to meet segregation requirements, portfolio positions may be required to be liquidated when it may not be advantageous to do so. Leverage may cause the value of a client portfolio to be more volatile than if it had not been leveraged, as certain types of leverage may exaggerate the effect of any increase or decrease in the value of securities in a client portfolio. The loss on leveraged transactions may substantially exceed the initial investment.

*Market Risk.* Economic and other events (whether real or perceived) can reduce the demand for certain securities or for investments generally, which may reduce market prices and cause the value of a client portfolio to fall. The frequency and magnitude of such changes cannot be predicted. Certain securities can experience downturns in trading activity and, at such times, the supply of such instruments in the market may exceed the demand. At other times, the demand for such instruments may exceed the supply in the market. An imbalance in supply and demand in the market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. No active trading market may exist for certain investments, which may impair the ability of the portfolio

manager to sell or to realize the full value of such investments in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded investments.

*Maturity Risk.* Interest rate risk will generally affect the price of a fixed income security more if the security has a longer maturity. Fixed income securities with longer maturities will therefore be more volatile than other fixed income securities with shorter maturities. Conversely, fixed income securities with shorter maturities will be less volatile but generally provide lower returns than fixed income securities with longer maturities. The average maturity of a client portfolio's investments will affect the volatility of the portfolio's rate of return.

*Quantitative Management Risk.* Parametric uses quantitative, proprietary investment techniques and analyses in making investment decisions. These strategies seek to take advantage of certain quantitative and/or behavioral market characteristics identified by Parametric, utilizing rules-based country, sector and commodity weighting processes, structured allocation methodologies and disciplined rebalancing models. These investment strategies have not been independently tested or validated, and there can be no assurance that they will achieve the desired results.

*Short Sale Risk.* Short sale risk includes, among other things, the potential loss of more money than the actual cost of the investment, and the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the client portfolio.

*Small Companies Risk.* Smaller companies are generally subject to greater price fluctuations, limited liquidity, higher transaction costs and higher investment risk. Such companies may have limited product lines, markets or financial resources, and they may be dependent on a limited management group, or lack substantial capital reserves or an established performance record. There is generally less publicly available information about such companies than for larger, more established companies. Stocks of these companies frequently have lower trading volumes making them more volatile and potentially more difficult to value.

*Tax-Managed Investing Risk.* Market conditions may limit the ability to generate tax losses or to generate dividend income taxed at favorable tax rates. 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. The ability to utilize various tax-management techniques may be curtailed or eliminated in the future by tax legislation or regulation.

*Tax Risk.* The tax treatment of investments held in a client portfolio may be adversely affected by future tax legislation, Treasury Regulations and/or guidance issued by the Internal Revenue Service that could affect the character, timing, and/or amount of taxable income or gains attributable to an account. Income from tax-exempt municipal obligations could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or non-compliant conduct of a bond issuer.

*Tracking Error Risk.* Tracking error risk refers to the risk that the performance of a client portfolio may not match or correlate to that of the index it attempts to track, either on a daily or aggregate basis. Factors such as fees and trading expenses, imperfect correlation between the portfolio's investments and the

index, changes to the composition of the index, regulatory policies, high portfolio turnover rate and the use of leverage all contribute to tracking error. Tracking error risk may cause the performance of a client portfolio to be less or more than expected.

#### **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Parametric or the integrity of Parametric's management. Parametric has no disciplinary information applicable to this Item.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Through its parent company, Eaton Vance Acquisitions ("EVA"), Parametric is a majority owned affiliate of EVC. EVC owns 100% of EVD, a broker-dealer registered with the SEC, which serves as principal underwriter and distributor for Eaton Vance Funds and is an affiliate of Parametric. Certain Parametric employees are representatives licensed through EVD for the marketing and sale of the Eaton Vance family of registered investment companies.

As described above, through its parent company EVA, Parametric is approximately 92% owned by EVC. EVC directly or indirectly owns (i) 100% of EVM, a registered investment adviser with the SEC (File No. 807-15930), (ii) 100% of Boston Management and Research ("BMR"), a registered investment adviser with the SEC (File No. 801-43127), (iii) a majority of Atlanta Capital Management Company ("ACM"), a registered investment adviser with the SEC (File No. 801-60673), and (iv) 100% of Fox Asset Management ("FOX"), a registered investment adviser with the SEC (File No. 801-60656).

Parametric also wholly-owns PRA, a registered investment adviser with the SEC (File No. 801-67738). PRA provides structured options and derivatives investment advisory services, and is based in Westport, Connecticut.

Investment products of Parametric, PRA, EVM, and other affiliates and subsidiaries may be cross marketed. Parametric works closely with its affiliates to jointly market advisory and strategic investment services to institutional and high-net-worth clients and may refer clients to its affiliates when appropriate. These shared marketing efforts and sales referrals result in intercompany transfers and cost-sharing payments between Parametric and its affiliates. Pursuant to a written agreement between Parametric and EVD, Parametric compensates EVD a percentage of the investment advisory fee earned by Parametric on certain accounts for EVD's joint-marketing efforts.

Parametric provides investment overlay services to EVM for client accounts utilizing certain EVM investment strategies. Pursuant to a written agreement between Parametric and EVM, Parametric receives a portion of the total fees paid for such accounts.

Parametric acts as a general partner and investment adviser of the Clifton Commodities Fund LP ("Commodity Fund"). The Commodity Fund's objectives and strategies are to seek a total market return

above a custom index (50% Dow Jones UBS / 50% S&P GSCI), utilizing exchange-traded commodity futures contracts.

Parametric acts as the managing member of the Clifton Defensive Equity Fund, LLC (“Defensive Equity Fund”). The Defensive Equity Fund’s objectives and strategies are similar to those of the Defensive Equity Strategy described earlier.

Parametric acts as investment manager of the Clifton Global Balanced Risk Fund Ltd. (“GBR”). GBR’s objectives and strategies are similar to those of the Global Balanced Risk Strategy described earlier.

Parametric acts as investment manager of the Clifton U.S. Inflation-Linked Bond Fund Ltd., as well as the Clifton International Inflation-Linked Bond Fund (“Inflation-Linked Bond Funds”). The Inflation-Linked Bond Funds’ objectives and strategies are to seek returns that correspond to a levered price and yield performance of the applicable index (the Barclays Capital U.S. Govt. Inflation Linked Bond and the Barclays Capital World Govt. Ex. U.S. Inflation Linked Bond, respectively) by investing in a sub-set of securities represented in the index.

Parametric acts as the managing member of the Clifton Equal Sector Commodity Strategy Fund, LLC (“Equal Sector Fund”). The Equal Sector Fund’s objectives and strategies are to seek returns in excess of the Dow Jones UBS Index with lower volatility by investing in exchange-traded commodity futures to achieve the desired market exposure.

Parametric provides investment advisory services to wrap fee programs sponsored by several broker-dealer firms. A “wrap fee” is a comprehensive fee paid by the client covering both brokerage and money management services. It is the client’s sole responsibility to negotiate the wrap fee with the particular broker-dealer. If Parametric is selected as a sub-adviser for a specific client’s assets through a wrap fee type program, Parametric will have no ongoing responsibility to assess the value of services delivered by the broker-dealer or wrap fee program adviser. A client must recognize that the overall costs associated with a wrap fee type program may be higher or lower than what the client might otherwise experience by paying Parametric standard fees and negotiating transaction and advisory charges with the broker-dealer. It must be recognized that the advisory and other services provided by a wrap fee program might not be available to the client other than pursuant to the wrap fee arrangement. In the wrap fee programs, Parametric may be deemed to be the adviser or sub-adviser to the program, depending on whether the sponsoring broker-dealer or another investment adviser retains the basic investment advisory function.

Parametric salespeople may also be registered representatives of EVD and receive compensation for promoting sales of the Eaton Vance mutual funds sub-advised by Parametric and for which Parametric receives a separate advisory fee.

Parametric is registered as a Commodity Trading Adviser (“CTA”), a Commodity Pool Operator (“CPO”), a Swap Firm and a Forex Member with the Commodities Futures Trading Commission (“CFTC”), and certain Parametric sales personnel are registered with the CFTC as Associated Persons.



## Item 11 – Code of Ethics

Parametric has adopted a Code of Ethics for all supervised persons of the firm describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, guidance on certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons at Parametric must accept and acknowledge the terms of the Code of Ethics in writing.

The Code of Ethics requires supervised persons to promptly report all personal securities transactions. The Code further requires that all personal investment account be disclosed, that Parametric receive duplicate confirmations of transactions and custodial account statements, and that all covered persons certify compliance with the Code of Ethics at least annually.

In addition to reporting and recordkeeping requirements, the Code of Ethics also imposes various substantive and procedural restrictions on covered transactions for certain Parametric employees.

Parametric anticipates that, in appropriate circumstances, consistent with the client's investment objectives, it will cause accounts over which Parametric has management authority to effect, and will recommend to investment advisory clients or prospective clients, the purchase or sale of securities in which Parametric and/or its clients, directly or indirectly, have a position or interest. From time to time, Parametric or its affiliates may also recommend to investment advisory clients or prospective clients the purchase or sale of mutual funds in which Parametric receives a sub-advisory fee. Parametric's employees and persons associated with Parametric are required to follow the firm's Code of Ethics. Subject to satisfying this company policy and applicable laws, officers, directors and employees of Parametric may trade for their own accounts in securities that are recommended to and/or purchased for their clients. The firm's Code of Ethics is designed to assure that the activities, interests and relationships of the employees of Parametric will not interfere with (i) making decisions in the best interest of advisory clients or (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Thus, the Code of Ethics designates certain classes of securities as exempt securities and certain classes of transactions as exempt transactions, based upon a determination that these would not materially interfere with the best interests of Parametric's clients. Nonetheless, because the Code of Ethics in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored under the Code of Ethics in order to reasonably ensure employees comply with the Code of Ethics, and to reasonably address conflicts of interest between Parametric and its clients.

Certain affiliated accounts may trade in the same securities with client accounts on an aggregated basis when consistent with Parametric's obligation of best execution. In such circumstances, the affiliated and client accounts will share commission costs equally on a pro rata basis and receive securities at a total average price. Parametric will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade order. Partially filled orders will be allocated on a pro rata

basis. Parametric does not trade on its own behalf. Parametric's policy is to execute cross trading only upon Compliance approval and only in accordance with applicable regulatory guidelines.

Parametric may invest in securities of which related persons of its employees may be considered to be insiders. Parametric's trading and research will not be based on material, non-public information, as defined in Parametric's Code of Ethics.

Parametric may buy, sell and perform research on or through companies for whom a client may be the company, an employee, officer or director.

Parametric or its employees may give charitable contributions to client organizations. Often times this is done through sponsorships at events. Parametric may also support educational endeavors of industry or client trade organizations.

A copy of the Code of Ethics will be provided upon request to clients and prospective clients by contacting Deborah Lamb at 206-694-5575 or [ppa-compliance@paraport.com](mailto:ppa-compliance@paraport.com).

## **Item 12 – Brokerage Practices**

Parametric and its clients will usually sign a written agreement providing Parametric discretionary authority over the assets in the designated client account and the ability to exercise that authority over all trading activities. Parametric will exercise its discretionary authority in a manner consistent with the stated investment objectives for the particular client account. Parametric's authority to trade securities may be further limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments in certain types of accounts.

### **Broker-Dealers**

Parametric has a fiduciary obligation to act, at all times, in the best interest of the clients and to seek best overall execution in client trading. The firm has the authority to execute a trade through any broker, dealer and/or exchange it deems appropriate and may negotiate commission and similar fees and expenses. Parametric carefully monitors and evaluates transaction costs and quality of execution across all strategies and client portfolios. Parametric utilizes the services of third party service providers, such as ITG, to assist with best execution analysis. In analyzing best overall execution, Parametric will consider factors including but not limited to: specific market and trading impact, number of shares being traded, share price, trading costs, exchange costs, and other material inputs.

Parametric will always seek to effect each transaction at a price and commission that provides the most favorable total overall cost or proceeds reasonably attainable under the circumstances. Parametric may consider various factors when selecting a broker or dealer, including, but not limited to: the nature of the portfolio transaction; the size of the transaction; the execution, clearing and settlement capabilities of the broker or dealer; reputation, financial strength and stability; availability of alternative trading platforms; the desired timing of the transaction; confidentiality; and, under appropriate circumstances, the availability of research and research-related services provided through such broker or dealer.

Parametric may pay a brokerage fee in excess of that which another broker may charge for effecting the same transaction, if it in good faith determines that such commissions or fees are reasonable in relation to the value of brokerage and research provided. In limited circumstances, Parametric may utilize commission dollars to pay for research services provided in the form of written reports, telephonic communications, economic and market data, credit analyses, news services, electronic information, analytic software, analyst earnings revisions, etc. Such services may also contain information concerning securities markets, the economy, individual companies, pricing information and services, performance studies, and other information providing assistance in the performance of Parametric's investment decision-making responsibilities.

As authorized in Section 28(e) of the Securities Exchange Act of 1934, Parametric may cause its clients to pay a broker-dealer that provides brokerage and research services to Parametric an amount of commissions in excess of the commissions that another broker-dealer would have charged for effecting a transaction. These services may, if and to the extent used, tend to reduce firm expenses of Parametric. Not all services must benefit all clients to the same degree. Research services furnished by brokers and dealers with whom Parametric and its affiliates effect transactions may be beneficial to certain of the accounts advised by Parametric. At times, the commissions paid under such arrangements may be higher than the commission paid to a broker/dealer who provides no research capabilities or services. It is recognized that a particular account may be charged a commission paid to a firm who supplied research services not utilized by such account. Parametric will only utilize soft dollars to the extent permissible under the regulations. Parametric expects that each account will benefit overall by such practice because each is receiving the benefit of research services and the execution of such transactions not otherwise available to it without the allocation of transactions based upon the recognition of the value to such research services. On a routine basis, Parametric assesses its commission policies, rates and allocations. This review considers the contributions and value of research services received from broker-dealers.

In certain instances, Parametric may receive products or services from brokers which are used by Parametric both for investment research and for administrative, marketing or other non-research purposes. In such instances, Parametric makes a good faith effort to determine the relative proportion of its use of such product or service which is for investment research, and that portion of the cost of obtaining such product or service may be defrayed through brokerage commissions generated by client transactions, while the remaining portion of the cost of obtaining the product or service is paid by Parametric in cash.

Clients may request in writing that Parametric direct some or all trading activity to a single broker-dealer or group of broker-dealers to accommodate an external agreement between those parties. If a client decides to direct where its brokerage is placed by Parametric, the client should consider: (i) Parametric has existing integrated trading and reporting systems with some brokers which reduce the cost of transacting business with those brokers; (ii) a client who directs Parametric to use a specific broker may pay higher commissions on some transactions than might be attainable by Parametric, or may receive less favorable execution of some transactions, or both; (iii) a client who directs Parametric may forego any benefit from savings on execution costs that Parametric could obtain for its clients through negotiating volume discounts on batched transactions; (iv) a client who directs Parametric may restrict Parametric from receiving research-related products and services available from other brokers; (v) Parametric may

not begin to execute client securities transactions with broker-dealers which have been directed by clients until all non-directed brokerage orders are completed; and (vi) clients directing commissions may not generate returns equal to clients which do not direct commissions.

Portfolio transactions in foreign currencies or in overseas markets often involve foreign currency transactions when settling trades, or when converting or repatriating dividends. In situations when currency transactions are not required or otherwise mandated by the custodian broker, Parametric traders conduct foreign exchange transactions for portfolios with approved counterparties. When executing these transactions for clients, Parametric recognizes its responsibility to seek best execution for the portfolio and to pursue favorable rates with foreign exchange brokers.

Parametric may aggregate or “block” trades if, in Parametric’s reasonable judgment, such aggregation may result in an overall economic benefit to each participating client’s account, taking into consideration the more advantageous purchase or selling price, brokerage commission, and execution capabilities of the selected broker. By aggregating trades for multiple client accounts into a larger, single block order, Parametric may be able to obtain a better price and execution for all participating client accounts.

Although certain client accounts are subject to directed brokerage requirements, Parametric may conduct step out transactions, whereby it will place a trade order for one or more client accounts with a broker who executes the trade and then steps-out portions of the trade to applicable directed broker(s) for clearance and settlement. In certain cases, the executing broker will receive a commission from the participating discretionary client accounts but receive no commission from directed brokerage accounts. There are also instances when Parametric may execute a step-out transaction on a net basis, whereby the negotiated price is marked-up or down to compensate the executing broker for its services. Although mark-up/mark-downs may independently be more costly to the client in terms of commissions, Parametric believes that the selected broker-dealer being paid for these additional services offers the best combination of price and cost execution. That is, the combination of directed brokerage and discretionary accounts in one block order benefits all participating accounts because concentrating the execution of the orders with one broker can result in a better overall price and execution for all participating accounts.

Parametric is the manager for several limited liability investment partnerships. Parametric trades these portfolios in the same manner, using the same broker-dealers who charge the same rates as all other accounts. These portfolios participate in the same block trading allocation procedures and do not receive any benefits not accorded to other managed accounts.

In the event that trade allocation is required, Parametric’s trade allocation policy is designed to ensure fair and equitable allocation of investment opportunities among accounts over time and to ensure compliance with applicable regulatory requirements. Accounts are treated in a non-preferential manner, such that allocations are not based upon account performance, fee structure or Portfolio Manager. This policy is not intended to provide mathematical precision in all instances.

The allocation process is automated within the order management system. When an aggregated order is completed in its entirety, the order will be allocated to accounts in accordance with the preliminary allocation schedule, or on a pro-rata basis if the order is only partially filled. For certain securities and

derivatives which may have liquidity or other trading limitations, it may be necessary to place the order before setting the allocation among the participating accounts. In such instances, the allocation will be completed as soon as reasonably possible after execution. In any event, allocations must be placed no later than the end of the trading day. Fully executed orders will receive the average price obtained in the trades. Partially filled orders will be allocated pro-rata based on the original predetermined allocation, on an average price basis, subject to certain limited exceptions. If the allocation is de minimis (i.e., disproportionately small in relation to the size of the account or strategy), the allocation may be reallocated to other participating accounts which remain unfilled. There may be situations in the Emerging Markets portfolios where non pro-rata trade allocations can occur due to limited liquidity, or market rules. Records shall be kept by traders and/or portfolio managers supporting the reason for any such reallocation.

Parametric has adopted trade rotation procedures for those instances when it is required to submit competing trades for equity securities. These procedures are designed to ensure that participating client accounts are treated fairly. Parametric will generally block equity trades on behalf of multiple client accounts and submit the order to the broker for execution as market-on-close (“MOC”). However, certain circumstances may arise that require a deviation from this practice, such as client accounts subject to directed brokerage requirements that prevent them from participating in blocked trades, directed brokers who do not accept MOC orders, and certain security types that cannot be executed MOC. When Parametric is required to submit competing trades to multiple brokers, it will submit the orders following a randomly generated rotation schedule. By staggering the release of orders into the market, Parametric will attempt to limit the impact on the market price of the securities.

Parametric’s trade rotation procedures are generally applicable to equity securities only. Parametric’s investment strategies which utilize fixed income securities, derivatives and other financial instruments are typically provided to clients who are not subject to directed brokerage requirements or allocation restrictions. As such, Parametric follows its trade allocation and aggregation procedures when trading non-equity securities.

Parametric participates in a number of wrap fee programs through which a client will pay a fee based on assets under management with the brokerage firm or “wrap fee sponsor”. It is the client’s responsibility to determine if the entire wrap fees are suitable and reasonable. Most wrap programs require Parametric to execute all transactions through that designated broker-dealer. Parametric will accommodate such trading activities unless the Parametric trade desk believes that overall best execution for clients participating in those programs is better achieved through alternative trading sources.

*Counterparties.* Parametric may enter into agreements with other financial intermediaries for trading in client portfolios. To assess counterparty risk, Parametric will conduct initial due diligence on the other party prior to the execution of the trading agreement and continue monitoring each financial counterparty for the life of the investment. Counterparty arrangements for swaps, forwards, certain participatory notes, and similar transactions involve greater counterparty risk than execution through a registered exchange. Parametric will attempt to reduce the risk of non-performance or default by the counterparty by dealing primarily with established, well-financed organizations that continually demonstrate creditworthiness.

### Item 13 – Review of Accounts

In addition to ongoing daily management of accounts, all investment advisory accounts managed in Parametric's Seattle office are reviewed on an exception basis each month by Parametric's Portfolio Management Committee. The individuals performing the review include Parametric's Chief Investment Officer, Managing Director of Portfolio Management, Managing Director of Research, Directors of Research, Senior Researchers, and Directors of Portfolio Management. As part of such review, an analysis is made of the account's investment strategy, performance and other factors. A determination is made as to whether the strategy requires alteration in light of the investment objectives and restrictions.

Reviews of accounts will also occur when investment strategies and objectives are changed by the investment advisory client or Parametric and when significant events occur which are expected to impact the value of the account.

Parametric may, upon specific arrangements, furnish certain clients with quarterly reports directly or via a password protected internet site. Such reports generally consist of an account valuation combined with both a pre- and post-tax performance summary and analysis. Client reporting to clients in sub-advisory or wrap fee programs where Parametric is the sub-adviser is likely to be done by the program sponsor and content will vary by program. Upon request, Parametric provides a detailed inventory of all holdings, a transaction summary, a listing of all dividend and income payments received and a realized gain and loss report.

Parametric's Minneapolis division enters applicable client restrictions into its trading systems and additionally evaluates client account performance relative to mutually agreed upon objectives on a monthly basis and more frequently should market actions dictate. The Investment staff in Minneapolis meets monthly to review market activity, discuss developments affecting short-term strategies, present updated market outlooks, discuss potential strategy changes, and discuss matters affecting client portfolios. The Senior Portfolio Managers in Minneapolis have primary responsibility for the specific investments in client portfolios. Investment staff includes the Chief Investment Officer and E.V.P., Senior Portfolio Managers and Portfolio Managers.

Parametric's Minneapolis division's clients receive (directly or via access to password protected internet site) comprehensive reporting of their account on at least a calendar quarter basis. These reports detail the account's current holdings broken down by type of investment, list all cash transactions for the past quarter, summarize all transactions which resulted in realized gain or loss, and summarize the account performance for the current period and year to date. Indexed equity, fixed income and specialty derivative securities accounts may elect to receive reporting on a monthly basis. If the client requests not to receive a statement from Parametric, the firm has a reasonable belief that the custodian is sending statements in accordance with SEC Rule 206.

#### **Item 14 – Client Referrals and Other Compensation**

Parametric has written arrangements with its salespeople and with its affiliates that define payments, commissions, and incentives made to specific individuals and affiliates. Parametric employees may also be supervised persons of EVD and receive compensation for promoting Eaton Vance related mutual funds sub-advised by Parametric.

Parametric may, from time to time, engage third parties to solicit business on its behalf. Solicitors may be paid a portion of the fee charged by Parametric to the individual client. Parametric will participate in such arrangements only if written signed documents are in place, and all parties are in full compliance with all requirements under the Adviser's Act Rule 206(4)-3.

Parametric does not engage in any other type of referral or compensation arrangements except as defined elsewhere in this document.

#### **Item 15 – Custody**

Parametric does not provide custodial services to or maintain custody for its institutional, wrap accounts or individual separate accounts except as related to the private funds in which Parametric is the manager of the fund. Furthermore, Parametric does not take custody or possession of assets or securities of any client, except as is required in conjunction with the pre-approved collection of client fees.

Clients generally receive quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains custody of the specified client assets. Clients are encouraged to carefully review such statements and to compare such official custodial records to the account statements that Parametric may provide to clients or their advisers. Parametric statements may vary occasionally from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

#### **Item 16 – Investment Discretion**

Parametric receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Parametric observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Parametric's authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments made for a Fund account.

Certain client relationships are non-discretionary. In these cases, Parametric is executing transactions as specifically directed by the client.

Investment guidelines and restrictions must be provided to Parametric in writing.

### **Item 17 – Voting Client Securities**

Parametric has adopted and implemented proxy voting policies and procedures pursuant to Rule 206(4)-6 of the Advisers Act. Parametric's Proxy Voting Policy and Procedures are reviewed at least annually to ensure they are adequate and effective.

The Proxy Voting Policies and Procedures are designed to ensure that Parametric complies with Rule 206(4)-6 and maintains its fiduciary responsibilities to its clients. These policies and procedures are also intended to reflect the fiduciary standards and responsibilities set forth by the Department of Labor for ERISA accounts.

Parametric recognizes and acknowledges its fiduciary responsibility to exercise voting authority over client shares. Proxies increasingly contain controversial issues involving shareholder rights, corporate governance and social concerns, among others, which deserve careful review and consideration. Voting proxies has economic value for Parametric's clients, and therefore, Parametric considers it to be its fiduciary duty to preserve and protect the assets of its clients, including proxy votes for its clients' exclusive benefit.

It is Parametric's policy to vote proxies in a prudent and diligent manner after careful review of each company's proxy statement. Parametric votes on an individual basis and bases its voting decision exclusively on its reasonable judgment of what will serve the best financial interests of its clients, the beneficial owners of the security. Where economic impact is judged to be immaterial, Parametric typically will vote in accordance with management's recommendations. In determining its vote, Parametric will not and does not subordinate the economic interests of its clients to any other entity or interested party.

The responsibility for voting proxies on behalf of a client account shall be delegated to Parametric in the investment management agreement or other documentation. Once Parametric has agreed to vote proxies on behalf of a client account, it will instruct custodians to forward all proxy materials to Parametric.

For those clients for whom Parametric has undertaken the responsibility to vote proxies, Parametric will retain final authority and responsibility for such voting. In addition to voting proxies, Parametric will:

- Provide clients with this proxy voting policy, which may be updated and supplemented from time to time;
- Apply the policy consistently and keep records of votes for each client in order to verify the consistency of such voting;
- Keep records of such proxy voting available for inspection by the client or governmental agencies to determine whether such votes were consistent with policy and demonstrate that all proxies were voted; and



- Monitor such voting for any potential conflicts of interest and maintain systems to deal with these issues appropriately.

The Parametric employee responsible for administering proxy voting (the “Proxy Administrator”) may recommend that a client refrain from voting under the following circumstances: (i) if the economic effect on shareholders’ interests or the value of the portfolio holding is indeterminable or insignificant, *e.g.*, proxies in connection with securities no longer held in the portfolio of a client or proxies being considered on behalf of a client that is no longer in existence; or (ii) if the cost of voting a proxy outweighs the benefits, *e.g.*, certain international proxies, particularly in cases in which share blocking practices may impose trading restrictions on the relevant portfolio security. In such instances, the Proxy Administrator may instruct the Agent not to vote such proxy.

### **Proxy Committee**

The Proxy Committee is responsible for voting proxies in accordance with Parametric’s Proxy Voting Policy. The Proxy Committee maintains all necessary corporate meetings, executes voting authority for those meetings, and maintains records of all voting decisions.

The Proxy Committee consists of the following staff:

- Proxy Administrator
- Proxy Administrator Supervisor
- Portfolio Management Representative
- Chief Investment Officer

In the case of a conflict of interest between Parametric and its clients, where the vote of the proxies will not be consistent with current voting guidelines, the Proxy Committee will discuss and take the appropriate action with regards to the existing voting policy.

### **Record Keeping**

Proxy Voting records are maintained for six years. Records can be retrieved and accessed online by Parametric via its third-party vendor.

In addition to maintaining voting records, Parametric maintains the following:

- Current voting policy and procedures;
- All written client requests as they relate to proxy voting; and
- Any material research documentation related to proxy voting.

### **To Obtain Proxy Voting Information**

Clients have the right to access any proxy voting activity taken on their behalf. Upon written request, this information will be provided free of charge.

Toll-free phone number: 1-866-694-4101

E-mail address: [proxyinfo@paraport.com](mailto:proxyinfo@paraport.com)

In order to maintain confidentiality, Parametric will not provide voting records to any third party unless authorized by the client.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide certain financial information or disclosures about their financial condition. Parametric has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of any bankruptcy proceeding.



## Parametric's Privacy Policy

Parametric Portfolio Associates LLC ("Parametric") considers client privacy to be a fundamental aspect of its relationship with clients and is committed to safeguarding all client related "personal" information as defined under the privacy rules published under Section 504 of the Gramm-Leach-Bliley Act, as amended. Parametric does not disclose non-public personal information concerning its clients, former clients, or investors in certain limited partnerships over which the firm acts as a general partner, to any other party or person except as permitted and/or required by law, an applicable regulatory authority, or as outlined below.

Parametric may, in limited circumstances, have the need to collect non-public personal information about its clients and investors in certain limited partnerships over which the firm acts as a general partner. This information may include but is not limited to:

- ❖ Name, address, telephone number, tax identification and verification
- ❖ Assets, income, bank and investment accounts, credit information, custodian, IRS tax status and/or other specific financial, investment or related information
- ❖ Application, subscriptions, suitability and similar forms or questionnaires
- ❖ Legal documents such as trust agreements, financials, ownership records or similar information
- ❖ Parametric may collect personal information when an individual account is opened or when the information is provided by that client's advisor. This material may be accumulated from sources such as account applications and related documents, other written, electronic or verbal correspondence, transactions, a brokerage or financial advisory firm, a financial adviser or consultant, and/or information captured on Parametric's internet web site. Parametric retains the personal information of current and former clients in accordance with Rule 204-2 of the Investment Advisers Act of 1940.

Parametric may share client information with its affiliates or subsidiaries as needed to conduct business. From time to time, Parametric may engage the services of third party vendors or consultants to assist with the management of client portfolios. In that respect, information will be provided on a need-to-know basis only and the external parties will agree to hold all such information confidential. Parametric may also disclose or share information, to the extent permitted by law, with other financial institutions with which the firm and/or its clients have a joint business arrangement in managing and/or servicing the client.

Parametric's procedures are designed to restrict access to non-public personal information to appropriate personnel. Parametric maintains physical, electronic and procedural safeguards that comply with federal standards to safeguard current and past client related personal information.

Parametric does not sell non-public personal information to any external source and does not distribute this information to unrelated third party providers unless necessary for business related purposes in

connection with the servicing and management of client assets. Parametric cannot, however, guarantee clients against information theft which is beyond its reasonable technological abilities and controls.

Clients are provided with the Parametric notice of privacy statement at the time the account is incepted and annually thereafter until the account is closed. Parametric reserves the right to periodically review and revise its privacy policy and will provide updates annually and/or when materially amended. At all times, the client may notify Parametric in writing to restrict all non-public personal information from being distributed (except to regulators and/or by law) to any external parties including affiliates, consultants, and client related financial advisors. Clients are forewarned, however, that doing so may severely inhibit Parametric's ability to properly manage the client's assets and/or appropriately conduct business on behalf of the client. Please direct any questions or concerns to Parametric Compliance at 1918 8<sup>th</sup> Avenue, Suite 3100, Seattle, WA 98101, or 206-694-5575.

Revised: December 31, 2013