

Tax-Managed Core™ Separate Accounts vs. Mutual Funds and ETFs

About Parametric

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. Parametric and its affiliate, Parametric Risk Advisors, offer a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., global Tax-Managed Core™), options strategies (DeltaShift™), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

	PARAMETRIC TAX-MANAGED CORE INDEX-BASED CUSTOMIZED SEPARATE ACCOUNT	INDEX MUTUAL FUND	EXCHANGE TRADED FUND
STRATEGY			
Mandate Flexibility	A Customized Separate Account can be targeted to virtually any investor mandate. It can include social or sector restrictions, act as a "completion" portfolio or take strategic bets.	Mutual Fund and Exchange Traded Fund mandates are constrained to match a specified market as closely as possible. All assets are managed identically to an objective that is described in the prospectus. Selection is limited.	
PORTFOLIO MANAGEMENT			
Account Initiation	The investor can contribute securities or cash. A tax-aware transition that incorporates previous holdings with unrealized gains is possible.	Investor must purchase fund with cash, and is forced to liquidate any and all previous holdings.	
Withdrawals	A separate account accommodates withdrawals by selling individual securities in the most tax-efficient manner. The investor can change the mandate or terminate the investment manager without liquidation.	The investor sells shares, forcing the realization of taxes at the current NAV (or price) – cost.	
Index Turnover	Turnover resulting in capital gains is minimized, particularly if the effect on diversification (tracking) is low.	Turnover is driven by changes in the index.	
Redemptions by Other Investors	The actions of other investors do not effect taxation.	Redemptions in mutual funds that have large unrealized gains may result in the distribution of taxable gains.	Redemptions by other investors in exchange traded funds do not necessarily result in the distribution of capital gains.
Tracking Error	A separate account can manage its tracking difference by choosing to ignore some index changes and to match gains with losses in the case of corporate actions.	Tracks index without regard to tax impact.	
Trading	Intra-day trading is possible. Generally trades at close of day.	Trade at close of day only.	Intra-day trading is possible.

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TAX PLANNING			
Tax Lots	Tax lots are maintained individually. This makes ongoing management of gains and losses possible. The investor does not buy into others' unrealized gains.	Many funds do not utilize the most effective tax lot accounting methodology. There is no ability to manage gains at the security level. Tax management is at the aggregate portfolio level.	
Realization of Losses	Net Realized Losses can be passed through to the investor, enhancing tax-efficiency.	Mutual Funds and Exchange Traded Funds distribute capital gains but cannot distribute capital losses to shareholders.	
Realization of Short-Term Gains	Short-term gains can be offset against long-term losses.	Short-term gains are reported on Schedule B (Interest and Dividends) and cannot be offset by long-term losses.	
End of Year Planning	The investor can accurately measure the year-to-date tax liability at any time.	Investor must wait until a distribution to know amount and nature of taxable gains. Exchange Traded Funds typically make quarterly distributions.	
Estates and Trusts	Investor can gift highly appreciated securities or reorganize the portfolio, often with minimal realization of gains.	Investor can gift shares. Liquidation forces sale of shares, causing realization of capital gains.	
COSTS			
Fees	Management fees + custody + brokerage commissions.	Fund expense ratio	Fund expense ratio + brokerage commission + clearing costs
Taxation of Fees	Management and custodian fees might be structured as investment advisory expenses and subject to a 2% floor.	Management fees are included in expenses and deducted from earnings.	

This information should not be considered investment advice or a recommendation to buy or sell any particular security. A separate account offers the most comprehensive after-tax potential. It combines advantages of both mutual funds and exchange traded funds with enhanced portfolio customization and extended tax management flexibility.

From the tax perspective, exchange traded funds are very similar to index mutual funds. However exchange traded funds may not build up unrealized gains in the way that indexed funds do. They also differ with respect to costs, liquidity, and intra-day trading.