

# EMERGING COUNTRY DEBT STRATEGY

## *The Opportunity*

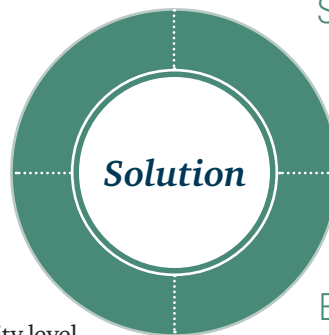
Emerging country debt offers a variety of alpha opportunities, with yields that are attractively high to compensate investors for potential default risk. Investors who have taken a strategic approach to the asset class have been rewarded with high, repeatable alpha derived from the premia associated with liquidity, complexity, and credit quality in the opportunity set and the benchmarks. The persistence of these premia can be harvested through rigorous security selection and in ways that are less sensitive to macroeconomic and market environments.

## *The GMO Solution*

GMO was one of the first managers to launch a fund in the space more than 25 years ago, and our delivered long-term net alpha has been high relative to the benchmark and to other managers. We attribute our success to a unique set of features:

### EMPHASIS ON ISSUE SELECTION

- Top-down forecasting is difficult to achieve and therefore less reliable. Security level arbitrage opportunities offer a higher probability of success. Within a given country where all securities have similar default risk, we look for mispriced debt instruments which offer the highest return potential.



### LONG-TERM, BUY AND HOLD STRATEGY

- Taking a long-term view empowers us to tolerate periods of short-term volatility, and to maximize the trade-off between complexity and/or liquidity premia and total return. Making careful purchases reduces the drag of high transaction costs on portfolio performance.

### RISK CONTROL

- We hedge out uncompensated risks at the security level. We don't attempt to time interest rates or take non-dollar risk. At the portfolio level, we maintain and monitor levels of active duration and concentration by not deviating significantly from country benchmark weights.

### EXPERIENCED, COHESIVE TEAM

- Our dedicated team has an average of 17 years of industry experience. We have been tested over multiple market cycles and crises. We feel the optimal portfolio management structure is one of a small team of highly experienced investors, each with a clearly defined role working in a collaborative fashion and supported by colleagues in fixed income quantitative research, strategy, trading, and operations.

## *The Client Fit*

We believe GMO Emerging Country Debt offers superior relative performance over the benchmark for investors with long time horizons and tolerance for mark-to-market volatility. Our unique approach has a low correlation with other managers and can be used in the following ways:

1. As an ideal stand-alone allocation to emerging debt
2. As part of a multi-manager allocation to emerging debt
3. Alongside broader fixed income mandates that invest in emerging markets opportunistically
4. Paired with GMO Emerging Country Local Debt in a “blended” approach

## *Who We Are*

Founded in 1977, GMO is a private partnership whose sole business is investment management. The firm manages global portfolios with offices and clients around the world. Investment offerings include equity, fixed income, multi-asset class, and alternative strategies. GMO is known for blended fundamental and quantitative investment research expertise and a long-term orientation toward value opportunities.

## *The Team*

The GMO Emerging Country Debt team has been managing emerging portfolios since 1994, consistently employing an investment approach emphasizing bottom-up, valuation-based instrument selection.

## RISK

Risks associated with investing in the Strategy may include Credit Risk, Market Risk-Fixed Income Investments, Illiquidity Risk, Derivatives and Short Sales Risk, and Counterparty Risk.