GMO
EVENT HIGHLIGHTS

UNDERSTANDING LIQUID ALTERNATIVES:

A Conversation with a Multi-strategy Portfolio Manager

B.J. Brannan and Catherine LeGraw | September 10, 2026

OVERVIEW

Catherine LeGraw and B.J. Brannan of GMO's Asset Allocation team discussed the role of liquid alternative strategies in today's investment landscape. B.J. is a portfolio manager for GMO's Alternative Allocation Strategy, which seeks to deliver strong returns and true diversification with daily liquidity by allocating to strategies such as equity long/short, event, and global macro. Conversation topics included:

1. Characteristics and objectives
2. Portfolio construction – How do you build a multi-strategy allocation?
3. Fit – How do these strategies work within a broader multi-asset portfolio?

EXCERPTS OF THE CONVERSATION ARE BELOW:

What are liquid alternatives? How are liquid alts different from alternatives like private equity and private credit?

When we say liquid alts, we are not talking about interval funds for assets like private equity or private credit put into a more liquid wrapper. That liquidity mismatch can lead to problems. What we're talking about here are hedge fund-type strategies that invest only in liquid instruments that match the liquidity profile of the vehicle. The strategies we allocate to offer transparency, liquidity, and very limited beta without onerous fees.

For investors who have been disappointed by liquid alternatives in the past, what makes you confident that you can meet your objectives?

It's important to be skeptical when considering any investment, but here are some reasons we are confident.

- We have a long history of delivering alpha in the alternative space at GMO.
- We also have a history within the asset allocation team of identifying market opportunities. Often, we can construct portfolios to take advantage of those opportunities within a long/short framework.
- The structure of the GMO Alternative Allocation Strategy is a real advantage. The underlying strategies are capital efficient, and that enables us to deploy leverage responsibly and gain additional exposure for each dollar invested.
- This structure also provides an effective fee break as we do not layer our fees; the investor gets more exposure for a flat fee paid.

Where are you finding new, unique ideas today? What's the source of new ideas?

The biggest opportunities we're seeing are in long/short equities and certainly more than in credit, where spreads are pretty tight. FX also has decent carry and value opportunities. There's a dislocation between value stocks and growth stocks, and that's one idea we're getting into the portfolio within equities long/short.

We recently looked at a new idea inspired by the uncertain monetary environment – a long volatility position in long-dated forward interest rates. We thought it was interesting because it is not too hard to imagine continued volatility in that space due to several factors: fiscal concerns, inflation, and the new Fed chair. The volatility curve is downward sloping, which helps the carry on the position. Ultimately, we decided not to move forward with that due to the very high associated transaction costs.

How would you expect this strategy to perform, and why, in an equity drawdown, particularly one driven by an unwind in AI?

We are not positioning Alternative Allocation to always have positive performance in an equity drawdown. We manage it to be uncorrelated, not negatively, correlated to equities.

However, due to the positioning of the portfolio today, it could potentially perform well in an AI unwind even if that led to a broad equity sell-off. We believe our largest risk allocations would likely do well.

- A couple of equity long/short strategies are short the frothiest areas of AI, and we've seen those strategies perform well at times when that narrative has wobbled;
- Quality Long/Short has overlapping themes and is generally defensive;
- Our global macro exposure is net short equities today.

What could cause liquid alts to break? What would make this a bad investment idea?

One possible negative outcome would be a blow up. Leverage plus concentration are most likely to cause that, but we have zero concerns about that for this portfolio. This was the case for Situational Awareness at the end of July - it was really levered long and taking concentrated positions; very different than what we're doing.

The other thing we think you have to be generally worried about with liquid alts is anemic returns. Beware of things like crowding or alpha decay, which, unfortunately, are much harder to judge. Crowding can actually benefit trend. It's important to monitor the ongoing IR of your strategy and your peers and to constantly innovate.

Why a multi-strategy approach rather than do-it-yourself liquid alts allocation?

- A multi-strategy approach is more consistent in the characteristics throughout time versus single strategies or thematic strategies, and that makes it a useful building block for portfolios.
- Our structure is far more efficient and cheaper than a do-it-yourself or a fund-of-funds model. We are able to take $2.00 of strategy exposure for every $1.00 invested.
- It is cost effective; we are not layering fees – it's a single flat fee for the strategy.
- It's almost like one-stop shopping for different hedge fund categories, and that has its benefits. We own the individual line-item risk, so you don't need to worry about outlier returns across strategies.

B.J. Brannan
Mr. Brannan is a portfolio manager for GMO's Alternative Allocation strategy. He is a member of GMO's Asset Allocation team and a partner of the firm. Previously, Mr. Brannan was a member of GMO's investments control group. Prior to joining GMO in 2006, he worked at Investors Bank & Trust as an account manager for fund accounting. Mr. Brannan earned a bachelor's in Business Management from the University of Massachusetts, Amherst and an MBA from Boston University. He is a CFA charterholder.

Catherine LeGraw
Ms. LeGraw is a member of GMO's Asset Allocation team and a partner of the firm. Prior to joining GMO in 2013, she worked as a director at BlackRock. Previously, Ms. LeGraw was an analyst at Bear, Stearns & Co. She earned bachelors' degrees in Economics and Finance from the University of Pennsylvania. She is a CFA charterholder.

Disclaimer
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