GMO
ASSET ALLOCATION INSIGHTS

GMO BENCHMARK-FREE

Past, Present, and Future

Asset Allocation Team | October 2025

Related GMO Investment Solutions

- Benchmark-Free Allocation Strategy

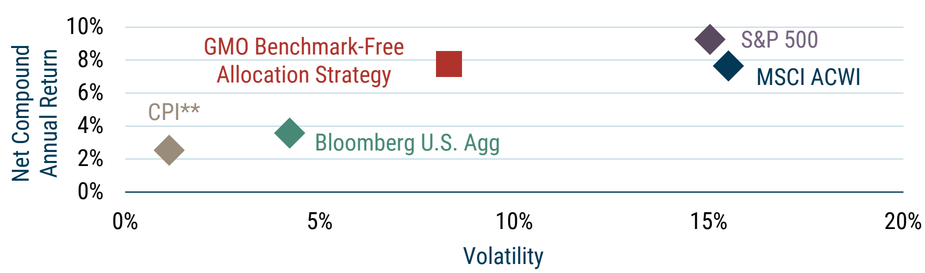
The GMO Benchmark-Free Allocation Strategy is a multi-asset portfolio that seeks to deliver inflation plus 5% over the long term. Since its inception in 2001,[1] Benchmark-Free (as we call it) has delivered returns in line with global equities at half the volatility by adhering to the following tenets:

- **Valuation Focus:** We own an asset only if we are getting paid for taking the associated risk.
- **Dynamic Allocation:** The portfolio adapts to changing market conditions.
- **Holistic, Integrated Approach:** Top-down asset allocation and bottom-up security selection are implemented with a constantly evolving toolkit.
- **Independence:** We are willing and able to hold an unconventional portfolio.

The Past: A Long History of Strong Risk-Adjusted Returns

A couple of examples stand out in demonstrating how Benchmark-Free's philosophy has delivered value. In the early 2000s, the years immediately following the strategy's launch, Benchmark-Free capitalized on the wide valuation spreads of the post-TMT bubble era. Later, after avoiding the worst of the drawdown in the Global Financial Crisis (GFC), we reallocated the portfolio quickly, capturing a significant portion of the post-crisis rebound.

EXHIBIT 1: GMO BENCHMARK-FREE ALLOCATION STRATEGY 2001-2025



	Net Cumulative Return	*Net Compound Annual Return*	*Annualized Volatility*	*Sharpe Ratio*
GMO Benchmark-Free Allocation Strategy	502.7%	7.7%	8.3%	**0.73**
MSCI ACWI	489.3%	7.6%	15.5%	**0.38**
S&P 500	742.7%	9.3%	15.0%	**0.50**
Bloomberg U.S. Agg	133.1%	3.6%	4.2%	**0.44**

As of 8/31/2025 | Source: GMO
Inception date: 7/31/2001. Sharpe Ratio = (portfolio return − risk-free rate)/volatility of annual return
Performance data quoted represents past performance and is not predictive of future performance.

1 Prior to January 1, 2012, the accounts in the composite served as the principal component of a broader real return strategy. Beginning January 1, 2012, accounts in the composite have been managed as a standalone investment.

STEADY DOMINANCE OF U.S. STOCKS CREATED HEADWINDS

Of course, long-run track records consist of numerous shorter-run experiences for investors.

Over its 20+ year history, Benchmark-Free's most damaging misstep has been under-allocating to the U.S. equity market during its tremendous bull run. Instead, we favored much more attractively priced international and emerging markets stocks. Over the seven years from the beginning of 2015 to the end of 2021, the S&P 500 Index delivered 14.9% annualized, more than double the return of non-U.S. stocks (6.7% for MSCI EAFE and 6.1% for MSCI Emerging Markets).

We failed to forecast the truly magnificent fundamental results delivered by a handful of American companies. The U.S. stock market won, not only on the back of better fundamentals, but also through expanding valuations over the period. The Shiller PE for the S&P 500 increased 43% from a healthy 26.8x (94th percentile) to a near-peak 38.3x (99th percentile) at the end of 2021.

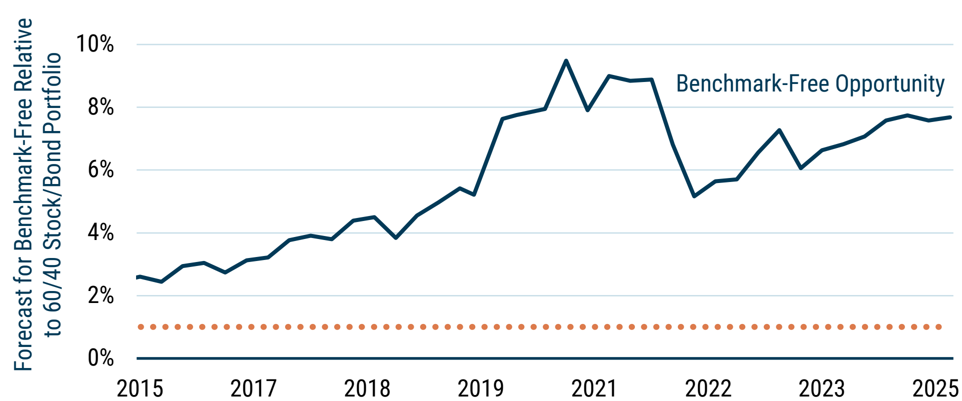
Because Benchmark-Free was persistently under-allocated to the world's best performing (by a wide margin) asset, over that period, the strategy delivered deeply disappointing results to investors. This prolonged period of U.S. superiority may even have erroneously convinced some investors that diversification is not truly necessary.

THE SILVER LINING: AN IMPROVED OPPORTUNITY SET

The benefit of this massive re-rating of stocks is that significantly wider valuation spreads have set up an environment conducive to success for dynamic asset allocation. Areas such as U.S. versus non-U.S., value versus growth, and large versus small have all reached historic spread levels. At the same time, nominal interest rates reached all-time lows in 2020, and real rates even turned negative.

Extreme valuation dispersion presents the ideal opportunity set for Benchmark-Free, as it leads to higher-conviction active positions and strong return potential as reflected in Exhibit 2, below.[2]

EXHIBIT 2: BENCHMARK-FREE RELATIVE RETURN POTENTIAL EXPANDED FROM 2015-2021



As of 6/30/2025 | Source: GMO
Opportunity is the difference between forecast return of Benchmark-Free and 60% MSCI ACWI/40% Bloomberg U.S. Aggregate portfolios given GMO forecasts at the time. 10-year forecasts are translated to "7-year equivalent" by multiplying by 10/7. Dotted line is our long-term expectation of likely achievable alpha from asset allocation.

2 In Exhibit 2, we estimate the potential for an unconstrained portfolio (like Benchmark-Free) to outperform by mapping GMO's asset class forecasts to Benchmark-Free's positions and subtracting the corresponding forecast for a 60/40 stock/bond portfolio. When dispersion among top-down forecasts increases, and when Benchmark-Free's positioning differs more markedly from a traditional portfolio, the potential for relative return rises.

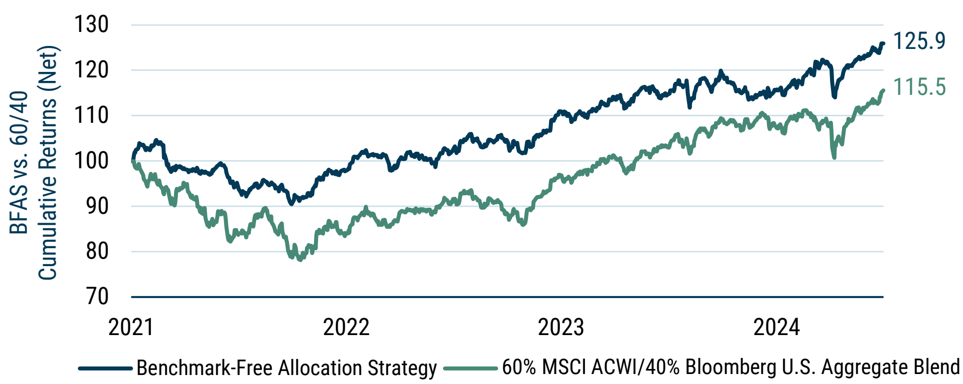
A LITTLE CHANGE GOES A LONG WAY

More recent changes in the macro environment (the incremental return of inflation), policy (rates coming off zero), and political objectives (tariffs, a trade war, and strategic uncertainty) have sparked considerable volatility in asset class returns and reversals of trends.

Entering 2022, low bond yields and expensive equities caused Benchmark-Free to emphasize liquid, low-duration, market-neutral alternative strategies. Fluctuations in valuations across stocks, bonds, and credit over the subsequent three years to today provided multiple opportunities to rotate the portfolio, and the liquid alternatives provided the dry powder for us to execute reallocations. Benchmark-Free's performance has improved considerably as many previous headwinds have dissipated.

EXHIBIT 3: VALUATION-SENSITIVE INVESTING AT WORK

Conservative positioning entering 2022 protected as bubble burst; re-risking helped in subsequent rally



As of 6/30/2025 | Source: GMO

The Present: Leaning into Our Focus on Valuations

Today, Benchmark-Free capitalizes on extreme valuation spreads in equities and currencies through four "big bets." These active views result in a portfolio that is taking a "normal" amount of risk in an unconventional manner.

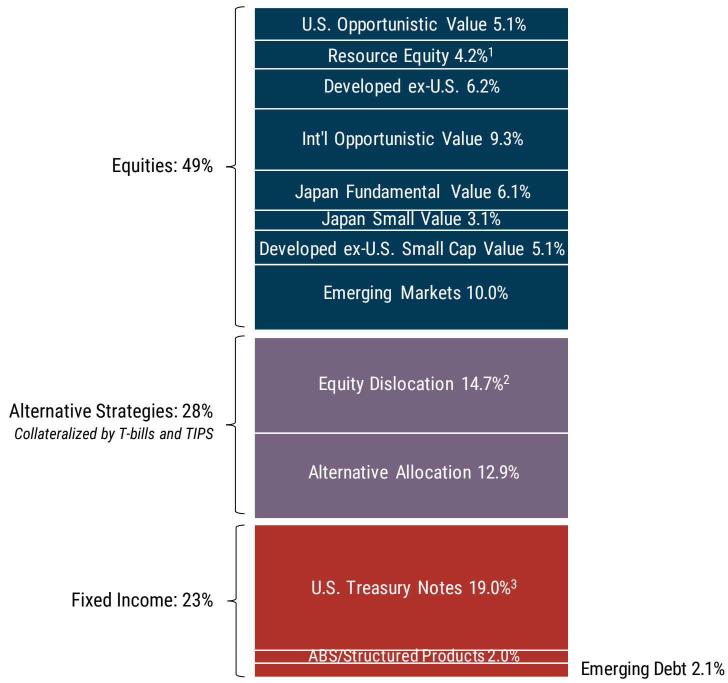
1 International Stocks
- Attractively priced with potential currency tailwind
- International deep value is an extraordinary opportunity today

2 Deep Value
- Capitalize on a true market dislocation
- Invest in diversified U.S. and international deep value portfolios
- Market neutral idea: Long deep value, short expensive growth

3 Japan Overweight
- Japan's exit from deflation improves the macro backdrop
- Corporate reforms crossed a tipping point
- The market offers attractive valuations and strong balance sheets which can be tapped via a fundamental, engagement-oriented strategy

4 Liquid Alternatives
- Offer diversification and facilitate re-deployment of capital
- Allocate to a diversified liquid alternatives portfolio

EXHIBIT 4: BENCHMARK-FREE ALLOCATIONS TODAY



As of 8/31/2025 | Source: GMO
[1]Includes GMO's Resources and Climate Change strategies.
[2]Total allocation to Equity Dislocation is 19.2% inclusive of exposure within Alternative Allocation.
[3]The headline exposure to U.S. Treasury Notes should not be considered in isolation of the portfolio's overall duration profile inclusive of collateral and other exposures.
The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy. Weightings are as of the date indicated and are subject to change. The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.
Totals may vary due to rounding.

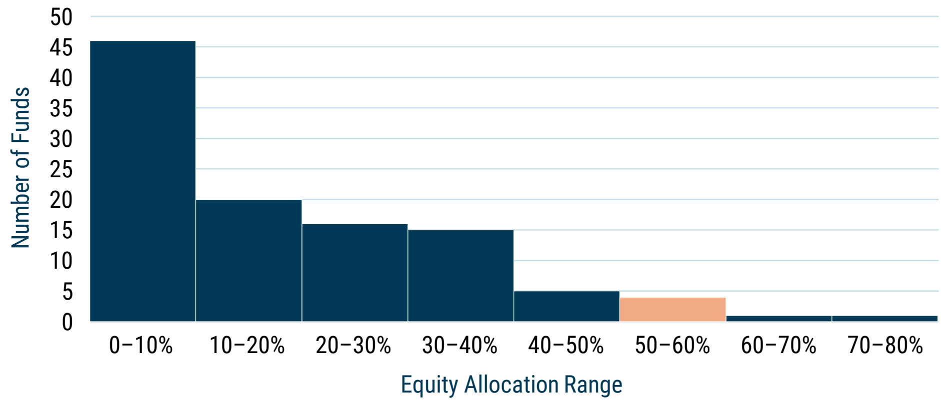
The Future: Still Unconventional

The next decade is likely to be very different from the recent past in terms of challenges and opportunities. Benchmark-Free retains the ability and willingness to hold a differentiated allocation driven by GMO's unique views and research.

As Exhibit 5 suggests, many allocation strategies that claim to be dynamic make only modest changes in practice. Compared to its Morningstar category, Benchmark-Free is more active than 95% of allocation funds, with an equity allocation range (minimum equity weight to maximum equity weight) of over 50%. Over 20+ years, Benchmark-Free has reined in equity exposures meaningfully during ebullient markets and leaned in when we believed we were being paid to take on equity risk.

Disclaimer
The views expressed are the views of the Asset Allocation team through the period ending October 2025 and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Past performance is no guarantee of future results..

EXHIBIT 5: BENCHMARK-FREE IS MORE ACTIVE THAN 95% OF ALLOCATION FUNDS



As of 9/30/24 | Source: GMO, Morningstar. Based on funds in the U.S. Fund Global Allocation category with at least 5 years of history; extreme datapoints are truncated.
The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

Benchmark-Free: Capturing GMO's Best Ideas

Benchmark-Free is a dynamic strategy designed to reflect GMO's highest-conviction views across equities, currencies, rates, credit, and alternative strategies.

Investors rely on GMO for our proactive allocation approach aimed at identifying market dislocations and capturing value before it disappears. Backed by deep market research and forward-looking forecasts, Benchmark-Free identifies both strategic and tactical allocation opportunities, rotating exposures as market conditions evolve.

In today's environment of elevated valuations and rising uncertainty, we're seeing strong demand from investors seeking to diversify beyond traditional 60/40 portfolios. Offered in several investible formats, including a mutual fund with daily liquidity, GMO Benchmark-Free Allocation Strategy provides a flexible, valuation-driven solution tailored to meet that need.

AVERAGE ANNUAL TOTAL RETURN (NET) IN USD

As of 6/30/2025

	Inception	*1-Yr*	*3-Yr*	*5-Yr*	*10-Yr*	*Since Inception*
Benchmark-Free Allocation Strategy	7/31/2001	10.02%	10.16%	6.85%	4.00%	7.59%
CPI Index		2.70%	2.87%	4.56%	3.06%	2.52%

Prior to January 1, 2012, the accounts in the Composite served as the principal component of a broader real return strategy. Beginning January 1, 2012, accounts in the composite have been managed as a standalone investment. Returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 2.45% to 2024 annual performance, based on a representative account. Performance for other periods, including this date, was also positively impacted, sometimes materially. Without this recovery, performance would have been lower in both absolute terms and relative to the benchmark. Additional information is available upon request.

Performance data quoted represents past performance and is not predictive of future performance.

Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is available on GMO.com by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy’s Composite Report.