

# GMO

## ASSET ALLOCATION INSIGHTS

### Related GMO Investment Solutions

- [GMO Dynamic Allocation ETF](#)

### THE HIDDEN COST OF ALLOCATION DRIFT

- Portfolio drift may increase unintended risk exposure
- Avoiding rebalancing can allow the “tax tail” to wag the investment dog
- Rebalancing traditional multi-ETF portfolios in taxable accounts may reduce after-tax returns

# GAINS WITHOUT PAINS

## *Staying on Target Without the Tax Hit*

How GMO Dynamic Allocation (GMOD) helps with reallocating a balanced portfolio (without the tax drag)

*Asset Allocation Team* | March 2026

Investors and advisors work hard to minimize taxes—and for good reason. Taxes can be one of the largest expenses investors bear. Leveraging ETFs and other smart strategies has been a game-changer for tax efficiency.

But here’s the catch: even the most tax-savvy approaches can still be undermined when your portfolio drifts away from its target allocation. Investors may love building portfolios with numerous tax efficient ETFs, but truly tax efficient rebalancing is nearly impossible in that structure.

When it’s finally time to reallocate, you might face a hefty tax bill that wipes out all those hard-earned savings. In fact, simply rebalancing a classic 60/40 portfolio back to target can cost you around 60 basis points in annual tax drag.<sup>1</sup> No one likes paying taxes, but letting your allocation drift means the “tax tail” is wagging the investment dog.

So, what’s the solution?

### *A Different Approach: One Multi-Asset Tax-Efficient Allocation Sleeve*

GMO’s new **Dynamic Allocation ETF (GMOD)** is a single, tax-efficient “allocation sleeve” for your broader portfolio, which can hold and actively adjust exposures across stocks, bonds, and more. By shifting allocations inside the ETF and using in-kind creations and redemptions, the fund can reallocate toward its target weights without triggering taxable events.

Beyond rebalancing to rigid targets, at GMO, we are big believers in dynamic allocation. Static portfolios ignore the investment environment; with dynamic allocation, your portfolio is constantly responding and repositioning to take advantage of the current opportunity set.

### *What GMOD Offers*

- **Dynamic allocation** to some of GMO’s highest-conviction ideas across asset classes (current exposures include Quality, Deep Value, and Japan)
- **Implementation flexibility**, using both active and passive ETFs
- **Ongoing rebalancing and rotation** without realizing capital gains

Where Can GMOD Fit in a Portfolio?

- As a **core holding** to compound wealth with less volatility than stocks<sup>2</sup>
- As a **diversifier** providing exposures to assets that are likely underrepresented in your portfolio
- As a **dedicated dynamic and tax-efficient sleeve** constantly rotating to best ideas

**Bottom line:** Don’t let tax worries keep you from staying on track. GMOD offers a modern way to build a portfolio and reallocate easily.

[Learn more about the GMO Dynamic Allocation ETF >](#)

1

Source: GMO analysis. Assumes a 60% equity, 40% bond target allocation (across U.S., Developed ex-U.S., and Emerging market stocks; U.S. bonds) with monthly rebalancing and quarterly tax payments over 10-years ended 9/30/25. Portfolio assumed to be in highest tax bracket with inflation of 2% annualized.

2

GMOD has risk characteristics broadly in line with a traditional 60/40 portfolio and the potential to add value through active, valuation-sensitive management.

## GMOD ALLOCATIONS

### Underlying ETFs

	<i>Asset</i>	<i>Issuer</i>	<i>Ticker</i>	<i>Type</i>
GMO U.S. Quality 10%	Quality	GMO	QLTY	Active
GMO U.S. Value 10%	U.S. Opportunistic Value	GMO	GMOV	Active
GMO Domestic Resilience 3%	Domestic Resilience	GMO	DRES	Active
GMO Int'l Quality 5%	International Quality	GMO	QLTI	Active
GMO Int'l Value 10%	International Opportunistic Value	GMO	GMOI	Active
Int'l Broad 6%	International Broad	iShares	IDEV	Passive
Japan Value 4%	Japan Value	iShares	EWJV	Passive
Int'l Small 2%	International Small	iShares	SCZ	Passive
Emerging Markets 6%	EM Broad	iShares	IEMG	Passive
Emerging ex-China 4%	EM ex-China Broad	iShares	EMXC	Passive
Long-term Municipals 8%	Long-Term Municipals	Invesco	PZA	Passive
Intermediate Treasuries 29%	Intermediate-Term Treasuries	Vanguard	VGIT	Passive
	Intermediate-Term Treasuries	Schwab	SCHR	Passive
	Intermediate-Term Treasuries	State Street	SPTI	Passive
Short-term Treasuries 3%	Intermediate-Term Treasuries	iShares	IEI	Passive
	Short-Term Treasuries	Vanguard	VGSH	Passive

As of 12/31/2025 | Source: GMO

An investor should carefully consider the fund's investment objectives, risks, charges and expenses before investing. This and other important information can be found in the fund's prospectus. To obtain a prospectus please visit [www.gmo.com](http://www.gmo.com). Read the prospectus carefully before investing.

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### Key Terms and Risks

A **60/40 portfolio** is a traditional allocation of 60% equities and 40% bonds. **Allocation drift** is the gradual movement of a portfolio away from its intended asset allocation as different investments grow or decline at different rates over time. **Traditional multi ETF portfolios** are investment portfolios that achieve diversification and asset allocation by holding multiple exchange traded funds (ETFs), with each ETF providing exposure to a specific asset class, market segment, or investment category.

Risks associated with investing in the Fund may include: (1) Management and Operational Risk: The risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility. (2) Market Risk - Equities: The market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares. (3) Non-U.S. Investment Risk: The market prices of many non-U.S. securities (particularly of companies tied economically to emerging countries) fluctuate more than those of U.S. securities. Many non-U.S. markets (particularly emerging markets) are less stable, smaller, less liquid, and less regulated than U.S. markets, and the cost of trading in those markets often is higher than it is in U.S. markets. For a more complete discussion of these risks and others, please consult the Fund's prospectus.

### Disclaimer

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