GMO

ALTERNATIVES INSIGHTS

RETURNS, DIVERSIFICATION, AND LIQUIDITY

Yes, You Can Have All Three

Asset Allocation Team | August 2026

Related GMO Investment Solutions

- Alternative Allocation Strategy

GMO's liquid alternatives are hedge fund strategies (e.g., equity long-short, global macro, event-driven) managed with an emphasis on risk control and liquidity. The GMO Alternative Allocation Strategy ("ALTA") is a liquid alternative solution combining several underlying strategies; ALTA is available in a mutual fund with daily liquidity.

To be a powerful component of your portfolio, liquid alternatives need to deliver **strong returns, diversification, *and* liquidity.** It is incredibly challenging to get all three characteristics in one package.

GMO's Alternative Allocation Strategy ("ALTA"), which offers investors daily liquidity, seeks to deliver a cash +4–6% return with limited beta to traditional risk assets. Because liquid alts are a critical component of our multi-asset portfolios, including our unconstrained Benchmark-Free Allocation Strategy,[1] we require optimal effectiveness. To this end, the Asset Allocation team engaged in a year-long research effort to maximize the impact of our liquid alternatives program. Our ultimate strategy for achieving objectives is based on four pillars:

1. Deploying multiple unique return drivers—we cast a wide net to generate performance.
2. Utilizing active strategies that attempt to deliver reliable alpha—alpha significantly increases total return without increasing correlations.
3. Being dynamic and opportunistic—we change allocations and bring in new ideas.
4. Using capital efficiently—we make each dollar of invested capital work harder.

Multiple Unique Drivers of Return

There are several systematic ways—typically by going **long** one asset and **short** another—to get paid **without** taking traditional market risk:

- **Value:** Long cheap, short expensive
- **Carry:** Long high yield, short low yield
- **Quality:** Long high quality (i.e., strong, stable fundamentals), short junk (i.e., weak, volatile fundamentals)
- **Momentum:** Long strong recent performance, short weak recent performance

We tap into multiple return drivers **and** we do so in different ways, using a multi-strategy approach:

- We employ a **broad** set of strategies that combine factors in unique ways over varying horizons (e.g., event-driven, global macro, equity long-short, managed volatility, trend) using both quantitative and fundamental analysis.
- We implement those strategies across a **wide-ranging set of assets,** taking positions in global equities, currencies, rates, credit, and volatility instruments.

Importantly, we are not taking an inherently *illiquid* strategy and repackaging it as a *semiliquid* strategy—ALTA's underlying instruments are all highly liquid.

Proven Alpha

GMO's proprietary hedge fund strategies have a proven ability to add alpha on top of generic factor returns. For example, the HFRX Merger Arbitrage Index returned 2% annualized over

1 GMO's Benchmark-Free Allocation Strategy is an absolute return, go-anywhere liquid dynamic allocation strategy.

the past 10 years.[2] GMO's Event-Driven Strategy delivered 6% annualized (net) over the same period. Skill can potentially enhance returns without necessarily increasing correlations.

Dynamic and Opportunistic

As the market environment changes, the liquid alts allocation needs to evolve as well. Potential allocation changes may include:

1. **New strategies.** Last year, we added a new equity long-short strategy to our lineup.
2. **Beta (long or short) at extremes.** In 2020, when credit spreads blew out, we added high yield to our liquid alts portfolio.[3]
3. **Opportunistic ideas.** When we identify a market anomaly, we seek to exploit it.

The GMO Alternative Allocation Strategy holds two opportunistic positions today:

OPPORTUNISTIC IDEA #1

Value Dislocation

In 2020, we identified that value stocks were trading at nearly their widest discount ever relative to growth stocks. We launched a strategy to capitalize on this dislocation: GMO Equity Dislocation is long cheap value, short expensive growth.[4]

OPPORTUNISTIC IDEA #2

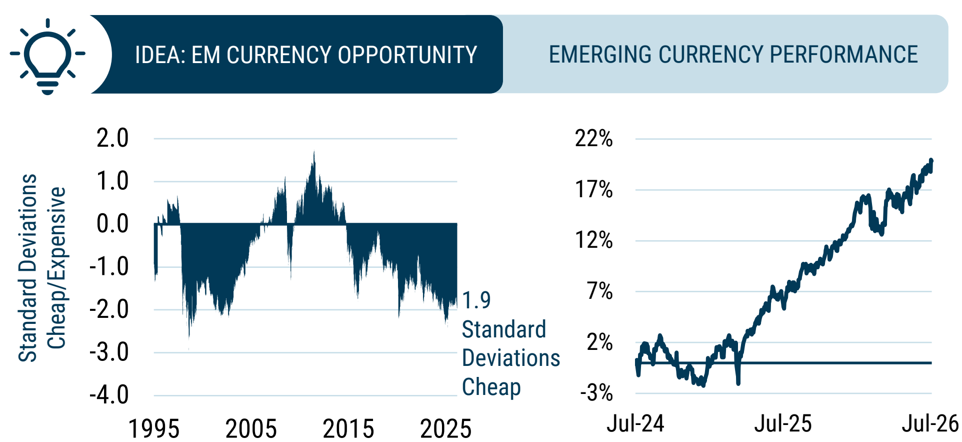
Emerging Market Currency Cheapness

Emerging market currencies are trading at two standard deviations cheap to the U.S. dollar. EM currencies always offer carry (e.g., cash rates in Brazil and Turkey are higher than in the U.S.), but carry can be wiped out by FX depreciation. Due to EM cheapness, we believe appreciation is more likely than depreciation. Additionally, GMO has an 18-year history of delivering strong alpha within EM currencies.[5]

With three potential sources of return (carry, value, and alpha), we developed an active EM currency strategy that has generated approximately 20% return since its implementation.[6]

PROVEN ABILITY IDENTIFYING TOP-DOWN OPPORTUNITIES

Cross-team collaboration in creating investment solutions



Left: As of 6/30/2026 | Source: GMO
Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, and Price/Economic Book.

Right: As of 7/31/2026 | Source: J.P. Morgan, GMO
Equally weighted index of Brazil, China, Indonesia, India, Korea, Malaysia, Mexico, Russia, Taiwan, and South Africa. As of Feb 2022, we exclude Russia.

2
The HFRX Merger Arbitrage Index is comprised of merger-arbitrage/event-driven managers (just the good ones—managers that have failed and folded are excluded from the index). Data for the 10-year period ending 7/31/2026.

3
GMO's Alternative Allocation Strategy was initially launched in 2019. Effective January 31, 2025, GMO materially revised the strategy and established a new composite to reflect increased total exposure, wider volatility bands, and more diversified sources of return.

4
Revisiting the point on the importance of skill: Equity Dislocation has generated approximately 108% gross cumulative return (83% net) since its inception; over the same period, long MSCI ACWI Value/short MSCI ACWI Growth has generated -0.3% cumulative return (as of 7/31/2026).

5
GMO's Emerging Country Local Debt Strategy has outperformed its benchmark since its inception (2/29/2008–7/31/2026).

6
5/31/2024–7/31/2026.

Capital Efficiency

Finally, we make efficient use of invested capital by using leverage. We're not raising debt; we're simply taking advantage of the features of highly liquid implementation instruments.

- Some underlying strategies require cash-traded instruments (e.g., merger arbitrage/event-driven trades).
- Other underlying strategies require only a small amount of cash collateral for futures or option positions. That allows us to get more exposure with the same cash investment. More exposure means more risk, and more return potential.

In Alternative Allocation, every $1 invested captures about $2 of exposure to underlying strategies. Because of the flat fee structure, investors are getting more exposure to alpha sources for their fees.

Conclusion

GMO's Asset Allocation team has been using liquid diversifying strategies in portfolio construction for over 20 years. In our experience, you can build an alternatives portfolio that delivers decent returns, consistent diversification, **and** liquidity. Our ability to do so effectively has been critical to our success in rebalancing our multi-asset portfolios through volatile markets.

AVERAGE ANNUAL TOTAL RETURN (NET) IN USD

As of 6/30/2026

	Inception	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*Since Inception*
Liquid Alternative Allocation Composite	1/31/2025	12.03	N/A	N/A	N/A	10.87
FTSE 3-Mo. TBill		4.05	N/A	N/A	N/A	4.18
Benchmark-Free Allocation Composite*	7/31/2001	23.33	14.95	8.60	6.65	8.18
CPI Index		3.44	3.06	4.18	3.32	2.55
Event Driven Composite†	7/31/2016	7.24	11.79	6.38	N/A	6.12
FTSE 3-Mo. T-Bill		4.05	4.85	3.69	N/A	2.42
Equity Dislocation Composite‡	10/31/2020	27.96	8.18	7.70	N/A	9.21
FTSE 3-Mo. T-Bill		4.05	4.85	3.69	N/A	3.26
Emerging Country Local Debt Composite§	2/29/2008	12.68	12.09	5.81	4.77	2.94
J.P. Morgan GBI-EM Global Diversified+		7.85	7.31	2.13	2.68	2.60

Disclaimer

The views expressed are the views of the Asset Allocation team through the period ending August 2026 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.

* Prior to January 1, 2012, the accounts in the Benchmark-Free Allocation 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. Returns include a substantial, one-time proceed from the sale of certain Russian securities. The one-time sale of these securities contributed 0.93% (1-day performance impact), based on a representative account. Performance for other time periods was also positively impacted. Without these proceeds, performance would have been lower. Additional information is available upon request.

† The portfolio is actively managed, is not managed relative to a benchmark, and uses the Index for performance comparison purposes only and, where applicable, to compute a performance fee. The Event-Driven Composite returns include a substantial, one-time litigation settlement recovery received on December 16, 2024. This event contributed 2.64% 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.

‡ The portfolio is actively managed, is not managed relative to a benchmark, and uses the Index for performance comparison purposes only and, where applicable, to compute a performance fee.

§ Returns for the Emerging Country Local Debt Composite are based on estimated market values for the period from and including October 2008 through February 2009.

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

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.