GMO
ASSET ALLOCATION INSIGHTS

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THE STRONG OUTLOOK FOR LIQUID ALTERNATIVES

Why GMO Is Allocating Multi-Asset Portfolios to Liquid Alts Today

Asset Allocation Team | November 2026

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.

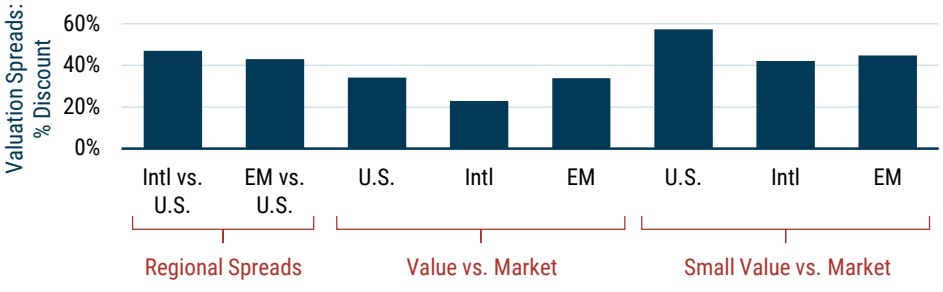
GMO has used liquid alternatives as a tool in multi-asset portfolio construction for over 25 years. Our dynamic allocation to liquid alts facilitates active portfolio rotation, often serving as a source of "dry powder" to redeploy when valuations are favorable. The asset class may also earn an outsized allocation when other opportunities are underwhelming.

Our current outlook for liquid alternative strategies is unusually strong for several reasons:

1. Positive cash rates: Because liquid alts seek to generate returns over cash, total returns can be improved by higher cash rates.
2. Wide valuation spreads: Today's valuation spreads are wider than normal across assets (e.g., U.S. vs. European stocks or semiconductors vs. industrials). This creates a healthy opportunity set because most liquid alts take long-short relative value positions.

EXHIBIT 1: EQUITY VALUATION SPREADS ARE WIDER THAN NORMAL

An excellent opportunity for dynamic asset allocation



Percentile	95	91	96	82	90	97	94	76

As of 9/30/2026 | Source: GMO
Relative valuation based on a composite valuation metric; U.S., international and emerging based on GMO 3000 (a broad U.S. reference portfolio), MSCI EAFE, and MSCI EM indexes; value and small value based on common factor indexes.

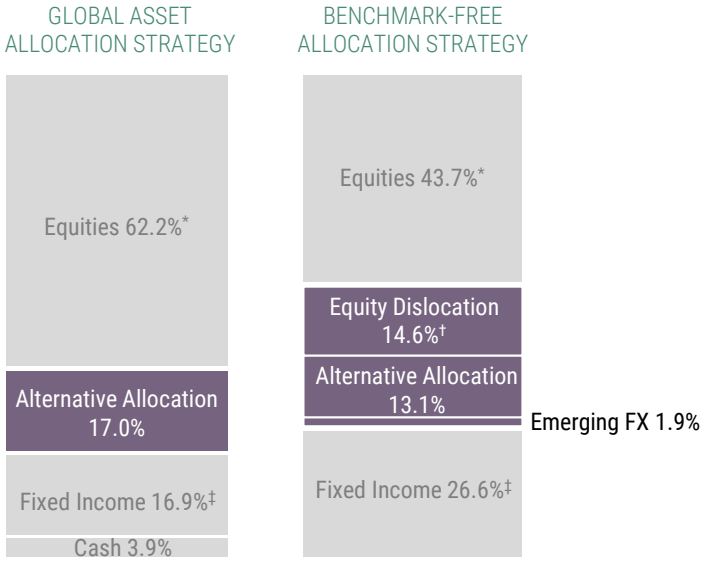
3. Industry evolution: Some may be skeptical that hedge fund strategies can be managed effectively within a **regulated, daily liquidity vehicle like a mutual fund.** (Mutual funds are more constrained in how they take short or levered positions as they are not able to utilize prime brokers in the same way hedge funds do.) However, the evolution of financial instruments and services now allows mutual funds to access the same result within particular risk parameters; for example:
    - Banks offer services that mimic what prime brokers can do.
    - An explosion in liquid, tradable derivatives and exchange-traded strategies has expanded the breadth of long and short positions.
    - Beyond the exchange-traded instruments, we are able to fully customize our short selection via basket swaps.
4. Competitive fee structure: Historically, hedge fund strategies came with high fees—typically a 2% management fee, plus a 20% performance fee (many strategies applied the performance fee without a performance hurdle, accruing fees without even needing to exceed the return of U.S. T-bills, for example). Today, it is possible to find hedge fund strategies with highly competitive fee structures.
5. More attractive than other investments: At GMO, we currently prefer to allocate to liquid alts rather than credit (where spreads are still historically tight) or expensive stocks.
6. Elevated risk of an unwind in the AI trade: While GMO's Alternative Allocation Strategy ("ALTA") isn't designed as a tail-risk hedge (i.e., a negative carry exposure that protects in drawdowns), we manage the portfolio to have a low correlation to equities. Further, given the portfolio's current positioning, we believe it should perform well in an AI unwind. Our largest risk allocations include long-short strategies that short the frothiest parts of the AI ecosystem; quality long-short positions that tend to be defensive during equity drawdowns; and our global macro exposure, which is net short equities today.

For these reasons, our multi-asset portfolios currently hold substantial allocations to liquid alts:[1]

- Global Asset Allocation, which is managed to a 65% stock/35% bond benchmark, has a **17% allocation to ALTA.**
- Benchmark-Free[2] has a **30% allocation to alts,** with 13% in ALTA plus additional exposure to our two favorite opportunistic ideas today. These are Equity Dislocation, which exploits the dislocation between value and growth stocks, and Emerging FX, which captures the cheapness of EM currencies.

1
As of 9/30/2026
2
GMO's Benchmark-Free Allocation Strategy is an absolute return, go-anywhere liquid dynamic allocation strategy.

EXHIBIT 2: USE IN GMO MULTI-ASSET PORTFOLIOS[3]



As of 9/30/2026 | Source: GMO

Conclusion

We firmly believe that investors need more than just stocks and bonds in their mix. Bonds don't provide protection in all environments. Liquid alternatives combine the potential for attractive returns, consistent diversification, and daily liquidity. Given today's favorable backdrop, we believe these strategies are worthy of allocators' consideration.

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Risk

Risks associated with investing in the Alternative Allocation Strategy 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) Leveraging Risk: the use derivatives and securities lending creates leverage. Leverage increases the Funds losses when the value of its investments (including derivatives) declines; and (3) Derivatives and Short Sales Risk: the use of derivatives involves the risk that their value may not change as expected relative to changes in the value of the underlying assets, pools of assets, rates, currencies or indices. Derivatives also present other risks, including market risk, illiquidity risk, currency risk, credit risk, and counterparty risk. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

Disclaimer

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

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*Includes GMO's Resources, Climate Change, and Power Infrastructure strategies. †Total allocation to Equity Dislocation is 19.1% inclusive of exposure within Alternative Allocation. ‡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. Totals may vary due to rounding. The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.