GMO Risk Premium Strategy

June 30, 2019

STRATEGY OVERVIEW

The GMO Risk Premium Strategy seeks total return commensurate with the equity risk premium over a full market cycle with less volatility than global equity markets, primarily by selling put options on stock indices.

STRATEGY FACTS

Inception: 11/30/12

Benchmark: CBOE S&P 500 PutWrite Index

Assets: $393 Million

Portfolio Management:
Simon Harris
Van Le

Risks:
Risks associated with investing in the Strategy may include Market Risk - Equities, Illiquidity Risk, Derivatives and Short Sales Risk, Management and Operational Risk, and Counterparty Risk.

About GMO:
Founded in 1977, GMO is an independently-owned, global institutional investment manager dedicated to providing our clients with superior investment advice and performance.

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INVESTMENT PHILOSOPHY

Over the past 30 years, if we look at how much of the market's return is due to an investor's exposure to the upside and how much has come from exposure to the downside, effectively all of the market return has come from insuring the downside. In other words, an investor would have to have been able to realize all of the return of the equity market by only taking exposure to the downside. In a reasonably efficient market, sellers of collateralized put options understand that they are bearing the same downside risk as holders of the index itself and therefore would demand, in expectation, they receive the same return. The GMO Risk Premium Strategy's approach is to capture long-term total returns commensurate with that of global equity markets by selling put options on major global equity indices.

CORE PRINCIPLES

- Put options offer an alternative exposure to equity risk
- Long-term returns to put selling are less sensitive to valuations
- Allocation amongst a global opportunity set adds value

INVESTMENT CASE

While equity returns are attractive in the long run, in the short run realized returns have been highly variable as a result of both valuation and the long duration nature of equities. From a valuation perspective, when equities have been priced to deliver poor returns, they have done exactly that and when they have been priced to deliver good returns, they have duly obliged. Moreover, due to their very long duration, equities also exhibit commensurately high volatility relative to changes in their underlying fundamentals. In an environment where equities and other high duration assets are expensive, the question becomes how to get exposure to the equity risk premium in a way that is not as dependent on equity valuations and minimizes duration exposure. We believe that by making use of equity index options investors can minimize duration exposure and get compensated for taking equity risk at times when the returns offered by the market are less than those offered at equilibrium levels.

INVESTMENT PROCESS

The GMO Risk Premium Strategy aims to add value over the CBOE S&P 500 Put/Write Index in two primary ways: First, we actively allocate outside of the US to take advantage of better implied-realized opportunities resulting from drawdown risk pricing in other parts of the global markets, and to gain exposure to markets that we believe are more likely to outperform on a delta basis. Second, we may sell shorter- or longer-dated options (e.g., 1 week versus 1 month) if we believe they present better opportunities to harvest systematic premia.

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STRATEGY PROFILE

Exposure[1]

	Notional (Strike) + MV[2]
United States	100.0 %

[1] Exposure Calculation: % of Net Assets

[2] Notional (Strike) + MV: # Contracts * Contract Size * (lessor of Strike or Underlying Price) + Mkt Val. Buy Call/Write Put (Positive), Buy Put/Write Call (Negative)

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.

PERFORMANCE NET OF FEES

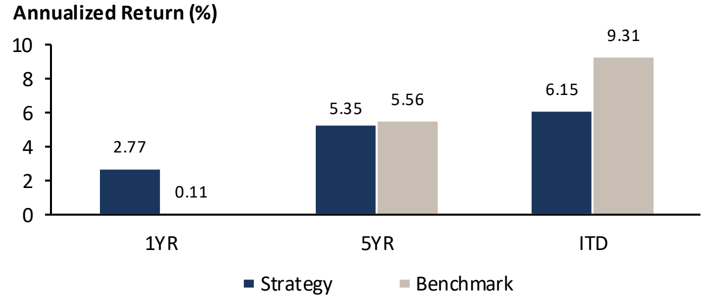
Total Return (%)

	Strategy	Benchmark
2Q 2019	**2.29**	2.44
YTD 2019	**9.85**	8.06

Annual Total Return (%)

	Strategy	Benchmark
2018	**-7.47**	-5.93
2017	**12.88**	22.40
2016	**11.07**	7.51
2015	**6.37**	-0.87
2014	**0.03**	4.94
2013	**7.86**	26.68
2012	**1.27**	1.88

Annualized Return (%)



Performance data quoted represents past performance and is not predictive of future performance. Returns are shown after the deduction of management fees, transaction costs and other expenses, but before custody charges, withholding taxes, and other indirect expenses. The returns assume the reinvestment of dividends and other income.

The CBOE S&P 500 PutWrite + Index is composed of (i) MSCI World Index from November 30, 2012 through December 29, 2017 and (ii) CBOE S&P 500 PutWrite Index thereafter.