CREDIT OPPORTUNITIES STRATEGY

The Opportunity

Opportunities can arise from dislocations in leveraged capital structures during both benign and more distressed economic times. In normal conditions, idiosyncratic events faced by specific companies or industries offer credit opportunities. Dislocations can be driven by secular and cyclical industry economic shifts or more regionally focused issues driven by public policy and sovereign fundamentals. During times of broader economic stress, there is a secular rise in default risk as companies with weaker fundamentals face rising borrowing costs and reduced access to capital.

As a recent example, the COVID-19 global shock has given rise to “COVID-impaired” and “COVID-impacted” sectors. By differentiating credit selection opportunities within and between these sectors, we can proactively position the portfolio to avoid sectors that are structurally impaired, while focusing on those that have been impacted but are expected to recover as the shock passes and the economy improves.

The GMO Solution

The GMO Credit Opportunities Strategy invests across the capital structure of companies subject to distress, dislocation, and other special situations by employing a value-oriented investment philosophy to identify opportunities. The Credit Opportunities team aims to deliver superior risk-adjusted returns by being highly selective in what they buy, obsessing over downside protection, and shorting vulnerable companies.

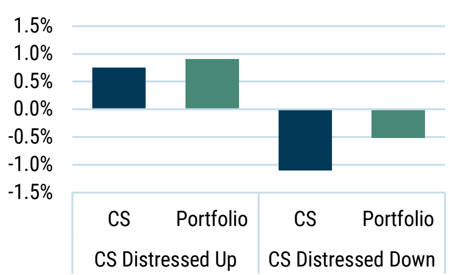
Traditional investors are often forced to sell distressed securities for non-economic reasons, such as credit ratings, reputation, or complexity. Utilizing a rigorous underwriting process, the Credit Opportunities team seeks to exploit this forced selling behavior in a repeatable manner by providing liquidity in select distressed situations. The Strategy is generally long-biased, but also positions to profit from shorting vulnerable companies in advance of distress.

Activity	*Alpha Sources*	*High Yield Funds*	*Distressed Funds*	*GMO Credit Opportunities*
Performing Credit	Total Return; Relative Value	✓	X	✓
Liquidity Providers	Forced Selling; Capturing Illiquidity Premium	X	✓	✓
Restructuring	Loan-to-Own; Creditor Rights Enforcement	X	✓	✓
Nimble Execution	Quick Capitalization on Dislocation Events	X	X	✓
Active Risk Management	Limited Drawdowns	X	X	✓

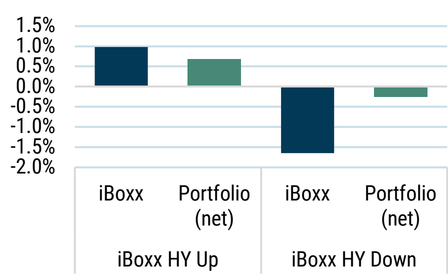
ACTIVE RISK MANAGEMENT - UPSIDE, DOWNSIDE CAPTURE

GMO Credit Opportunities Strategy: Net Performance vs. indices during periods of market strength and weakness

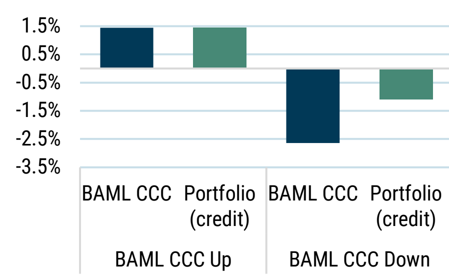
AVERAGE PERFORMANCE IN RELATION TO MOVEMENT OF THE CREDIT SUISSE DISTRESSED INDEX



AVERAGE PERFORMANCE IN RELATION TO MOVEMENT OF THE IBOXX LIQUID HIGH YIELD INDEX



AVERAGE PERFORMANCE IN RELATION TO MOVEMENT OF THE BAML CCC INDEX



As of 11/30/10 – 11/30/20 | Source: GMO

The above information is based on a representative account in the GMO Credit Opportunities Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy. **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.

The Client Fit

The Strategy's long opportunity set includes stress, distress, bankruptcy, liquidation, covenant default, ratings- and index-induced forced selling, litigation, and dislocations during spread-widening events. The short opportunity set presents itself during credit cycle downturns and it is actively used to take risk rather than serving primarily as a hedging device.

Five key features differentiate the GMO Credit Opportunities Strategy:

- **Opportunistic:** The Strategy seeks to capitalize on credit market dislocations, focusing on idiosyncratic dislocation opportunities during benign times and secular opportunities during downturns.
- **Nimble:** As a moderately sized manager with flexible mandate, GMO can invest in mid-cap and underfollowed opportunities and be nimble in larger structures without constraints of dedicated high yield and distressed capital base. Our focused portfolio employs a highly selective process and has a proven track record of downside protection.
- **Disciplined:** Our focused portfolio employs a highly selective process and has a proven track record of downside protection
- **Active Experience:** The team has extensive experience engaging with issuers directly and through creditor groups as a tool to drive value for select investments.
- **Tactical:** The Strategy exhibits low correlation, less drawdown potential, and lower beta relative to peer group asset classes.

Who We are

Founded in 1977, GMO is a private partnership whose sole business is investment management. The firm manages global portfolios with offices and clients around the world. Investment offerings include equity, fixed income, multi-asset class, and alternative strategies. GMO is known for blended fundamental and quantitative investment research expertise and a long-term orientation toward value investing.

The Team

The Credit Opportunities team is led by Co-Heads and portfolio managers Jon Roiter and Jeff Friedman, with support from the Head of Fixed Income Strategy, Riti Samanta. The six-member team includes two credit analysts and a distressed debt trader solely dedicated to the Credit Opportunities Strategy. In addition to sourcing, underwriting, sizing, and directing execution of investment opportunities, the team uses its expertise in law and creditor rights to improve the Strategy's position in the capital structure.

RISK

Risks associated with investing in this Strategy may include: Fixed Income Risks, High Yield Debt Securities Risks, Equities Risks, Municipal Securities Risks, and Loans (including Bank Loans) Risks.

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