EVENT-DRIVEN STRATEGY

The Opportunity

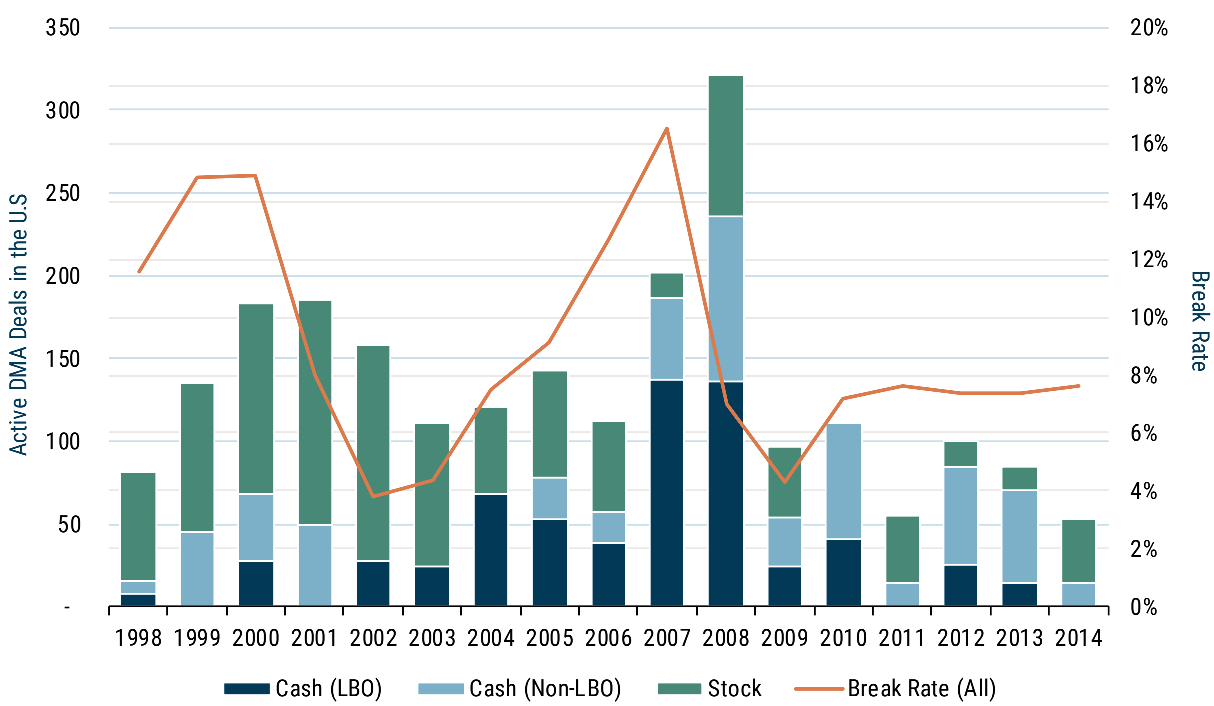
The Event-Driven universe consists of investment opportunities that arise from significant corporate events, where there is generally some uncertainty about the outcome of each event and where the outcome will be known relatively soon.

An Event-Driven strategy has three primary appeals: positive expected returns, low correlation to equities, and relatively short duration.

- **Positive Expected Returns:** There is generally some uncertainty about the outcome of the corporate event, which introduces risk. An investor should be paid for that risk over the long term.
- **Low Correlation to Equities:** Returns do not have much correlation to equities.
- **Minimal Duration:** Most situations are resolved within a short timeframe generally ranging from a few months to a year.

GMO approaches Event-Driven investing with a heavy focus on Merger Arbitrage. Merger Arbitrage has all of the attractive characteristics of Event-Driven – positive expected returns, low correlation to equities, and relatively short duration – with much lower equity beta than other typical Event-Driven investment strategies. GMO believes Merger Arbitrage is different because agreed-to mergers are bound by definitive merger agreements (DMA). A DMA is a legal contract binding a buyer and a seller to a host of conditions, including carve-outs, termination fees, and specific performance clauses. These contracts make it more difficult for parties to abandon a deal if conditions change, which typically makes DMA transactions much more resilient when times get turbulent.

CUMULATIVE BREAK RATES WITHIN U.S., DMAS ONLY; DEAL SIZE > $500M



Source: GMO

The GMO Solution

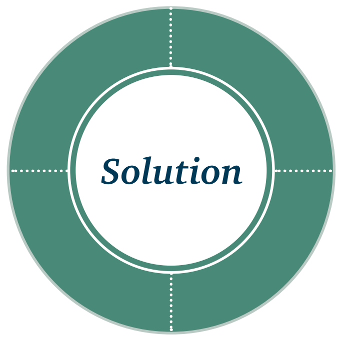
The Event-Driven Strategy focuses primarily on Merger Arbitrage transactions, supplemented by other event-driven situations including, without limitation, corporate buy-ins, hostile mergers, pre-bid acquisitions, corporate spin-offs, likely transactions, restructurings, and corporate litigation and regulatory events. GMO's Event-Driven team approaches this opportunity set with a strong focus on expected value, assessing the likelihood and returns of each outcome, and on situations where our assessment of the expected value is greater than that implied by the market.

FOCUS ON VALUE

- The team dedicates the bulk of our attention to situations where we think the market is being too pessimistic about the probability of success. Rather than trying to cover every situation in the investment universe with equal attention, we find that a focused approach on the situations where the potential opportunity is most compelling allows us to hone in on the best opportunities to add value.

LEVERAGE OUR EXPERIENCE

- Our team has the experience and historical perspective to take advantage of opportunities created by greed and fear dynamics in the market.



ADOPT A DIFFERENT DISPOSITION

- Event-Driven investing is a high noise-to-signal field. Our willingness to ignore the noise and focus on key facts that matter in each transaction allows a consistency of focus and serves as a stopgap against the frequent tendency by Event-Driven market participants to overreact. Additionally, our willingness to accept occasional deal breaks as a natural outcome of a probabilistic field, as opposed to considering them a cause to abandon our investment process, differentiates us from competitors who often avoid higher-risk situations due to fear of a deal break, regardless of expected value.

The Client Fit

In GMO's Asset Allocation strategies that have exposure to Event-Driven, we have made an investment as part of a broader allocation to alternatives. Our clients often consider an Event-Driven strategy as a complementary piece within a multi-manager equity portfolio structure. Particularly at times when traditional asset classes are looking expensive, Event-Driven can play a key role in a broader portfolio. In addition to its lack of sensitivity to market valuations, other attributes such as low equity beta and minimal interest rate duration make Event-Driven appealing. We believe we should be successful over the long term because varying market conditions often create different types of opportunities for attractive investments in the Event-Driven space.

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 opportunities.

The Team

GMO's Event-Driven team is led by Doug Francis, who has been managing Event-Driven portfolios since 1994, consistently employing a portfolio and risk management philosophy governed by the belief that, in an asymmetric field like Event-Driven where losses are often disproportionate to gains, a competitive advantage can be gained by combining a probabilistic framework at the position and portfolio levels. The team applies this proven framework to managing GMO's Event-Driven Strategy.

RISK

Risks associated with investing in the Strategy may include Merger Arbitrage Risks, Special Situation Investment Risks, Equities Risks, Options Risks, and Forward Contracts Risks.

GMO

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