FIXED INCOME ABSOLUTE RETURN STRATEGY

The Opportunity

Global fixed income and foreign exchange markets present significant opportunities to generate excess returns. We believe that these opportunities can be broken into two distinct, but related, investment universes: global interest rates and currencies. At a fundamental level, excess returns in these areas are anchored by valuation and can be further enhanced by exploiting the classical cyclical and structural opportunities of carry and momentum that present in these markets. We believe that a systematic, multi-factor approach that controls empirical market beta and traditional risk exposures can harvest these opportunities without underwriting excessive tail risk.

The GMO Solution

GMO's Fixed Income Absolute Return Strategy is a robust, systematic absolute return strategy that focuses on relative value investments in global rates and currencies. The Strategy uses independent models for country duration and FX risk exposure to extract alpha from cross-sectional markets. Global fixed income and foreign exchange assets are then modeled with multiple factors to generate detailed and regime-dependent valuations and forecasts.

Our proprietary models employ a combination of well-established fundamental, econometric, and statistical premia as the backbone of valuation, which is the core of GMO's investment philosophy. These models are further enhanced using momentum, carry, and sentiment-related drivers that span multiple horizons. Rigorously quantitative in signal creation, compilation, and portfolio construction, our process ensures internal consistency across the rates and currency markets, as well as a disciplined response to market realities and shifting opportunity sets.

Four key features differentiate the GMO Fixed Income Absolute Return Strategy:

- **Alpha Sources:** Focused on relative value investments, alpha is harvested from cross-sectional markets using independent models for country duration and FX risk exposure.
- **Systematic Portfolio Construction:** Sophisticated valuation, reversion, momentum and yield-based models with a balanced portfolio construction enable performance across diverse macroeconomic environments.
- **Diversification:** Attractive left-tail properties, low correlation to traditional risk assets, and a high liquidity profile meaningfully expand the client's portfolio diversification and efficient frontier.
- **Scalability:** A scalable source of alpha that can be implemented as a standalone absolute return stream or ported to overlay traditional Beta risk.

The Client Fit

The GMO Fixed Income Absolute Return Strategy represents a relative ranking based, scalable source of alpha. It can be employed in a variety of ways:

- **As an overlay to a traditional passive or beta broad fixed income market exposure.** Since the Strategy employs liquid forwards and derivative instruments, it serves as a source of portable alpha.
- **Within a pool of liquid alternative strategies along with other long/short relative value offerings in traditional asset classes.** In these cases, the narrow focus on rates and currencies and the value orientation offer key sources of diversification in a liquid alternative or alternative risk premia part of the portfolio.
- **As a standalone traditional hedge fund allocation.** In this instance, the Strategy exhibits the attractive feature of a low-to-negative market beta to both the equity and broad fixed income indexes.

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 fundamental orientation toward investing.

The Team

The GMO Fixed Income Absolute Return Strategy is led by portfolio manager and Head of Developed Rates & FX, Jason Hotra, with support from Head of Systematic Fixed Income Strategy Riti Samanta. The team comprises members with backgrounds in finance, economics, physics, math, statistics, and computer science – experience that helps them in developing and implementing quantitative investment strategies focused on global fixed income and currency markets. The Developed Rates & FX team manages both leveraged absolute return and benchmark-plus strategies, all of which benefit from alpha streams derived from proprietary models.

RISK

Risks associated with investing in this Strategy may include: Fixed Income Risks, Currency Risks, Forward Contracts Risks, Options Risks, and Futures Risks.

(617) 330-7500 | www.gmo.com