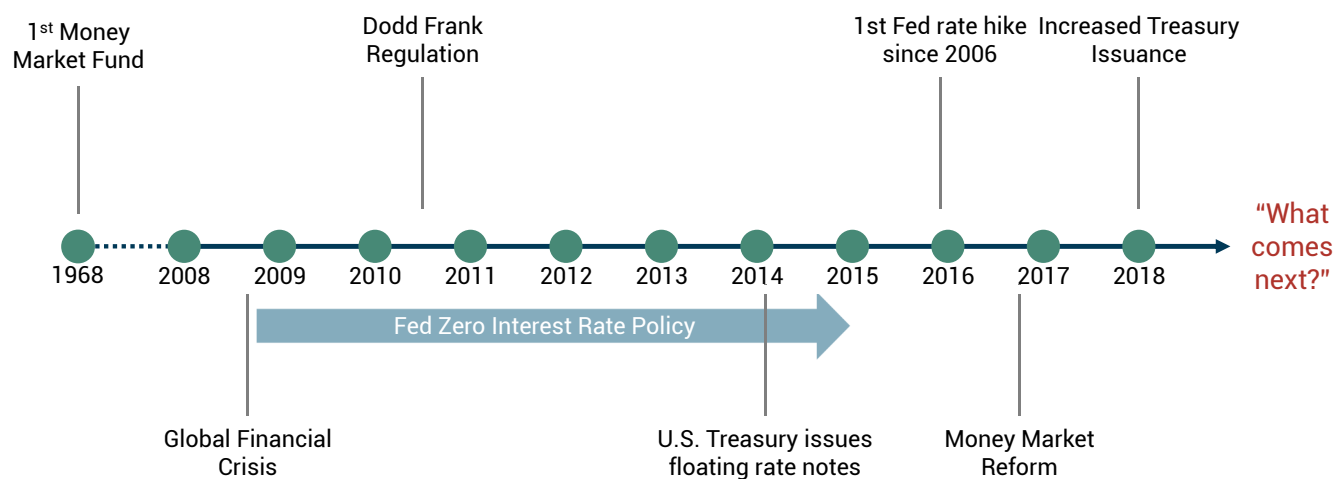


# STRATEGIC SHORT-TERM STRATEGY

## *The Opportunity*

The environment for cash investing has changed significantly since the first money market fund was established in 1968, with one of the most impactful changes being the SEC's Money Market Reform of 2016. Most cash funds post regulation are now U.S. Government-only money market funds. These funds are highly regulated, large in scale, and have a very narrow set of asset opportunities to choose from, which leads them to be price insensitive. These funds are not value oriented, often buying due to their mandate, even when assets are rich. This has resulted in attractive opportunities outside of the regulated money market space, which allow for greater return potential without taking on additional risk.



## *The GMO Solution*

The Strategic Short-Term Strategy is designed to be an alternative to money market funds and seeks to add value by investing in opportunities outside of the traditional money market opportunity set. The Strategy utilizes a global and valuation-oriented approach, while maintaining high quality and liquidity standards.

The Strategic Short-Term Strategy is a U.S.-dollar denominated, ultra-short duration, fixed income strategy that seeks a high level of liquidity and preservation of capital. We emphasize a bottom-up, relative value trading strategy to construct a portfolio of high quality securities that seek to meet the liquidity and return objectives of the portfolio.

The opportunity set is global in nature and we seek to maintain a high quality bias by investing in securities that are secured and backed by the credit of an underlying government balance sheet or that are otherwise supported by a system that the government depends on for policy making. We aim to create a diversified portfolio and believe in moving dynamically as market conditions change and new opportunities are presented.

GMO's Strategic Short-Term Strategy targets a maturity that typically falls between that of money market funds and ultra-short bond funds. We believe in the merits of diversification and that laddering maturities allows for a better liquidity profile. We seek to invest in high quality, liquid assets without adding currency, credit, or duration risk and without sacrificing yield. We assess the attractiveness of an instrument by examining its expected total return, liquidity, diversification and credit quality, typically seeking to maintain an overall portfolio estimated interest rate duration of 365 days or less.

| U.S. Treasury Bill Investors   |   | GMO's Approach  |
|--------------------------------|---|---|
| No Credit Risk                 | → | <b>Credit Risk</b> <ul style="list-style-type: none"> <li>Take little to no credit risk</li> <li>Maintain investment grade posture</li> <li>Explore misunderstood credit risks (FHLB)</li> <li>Use laddering as a means of introducing credit (selectively)</li> </ul>  |
| No Liquidity Risk              | → | <b>Liquidity Risk</b> <ul style="list-style-type: none"> <li>Emphasize securities as liquid as U.S. Treasury Bills</li> <li>Buy high quality, liquid assets</li> <li>Be a liquidity maker, not a liquidity taker</li> <li>Diversify liquidity risk through laddering</li> </ul>   |
| No Duration Risk               | → | <b>Duration Risk</b> <ul style="list-style-type: none"> <li>Limit overall duration to 1 year</li> <li>Limit individual security maturities to 2 years</li> <li>Use floating rate (zero duration) instruments</li> <li>Take balanced duration risk when curve dictates</li> </ul>  |
| No Currency Risk               | → | <b>Carry (Currency)</b> <ul style="list-style-type: none"> <li>Take advantage of non-U.S. opportunities</li> <li>Be a lender of U.S. dollars when imbalanced demand exists in post Dodd Frank world of dealer balance sheets</li> <li>Hedge currency risk</li> </ul>  |
| Supply/Demand/Seasonality Risk | → | <b>Complexity</b> <ul style="list-style-type: none"> <li>Be dynamic: not "trapped" into one type of security class</li> <li>Be on watch: short end of the curve is constantly evolving</li> <li>Explore new or misunderstood securities</li> <li>Position strategically during periods of collateral seasonality</li> </ul> |

- **Liquidity:** The Strategy invests in highly liquid assets for which a broad and deep market exists. GMO expects all assets can be traded daily, with settlement generally ranging from zero to two business days. The Strategy's max maturity is two years, typically running a weighted average duration of one year or less.
- **Diversification:** We have designed the Strategy to be an alternative to money markets funds and to complement other cash management programs. We take advantage of our global (G10) opportunity set to add incremental return while maintaining capital preservation, daily liquidity, and low interest rate risk.
- **Dynamic Allocation:** The Strategy is actively managed and the security selection process considers the seasonality of collateral, the relative pricing of various securities, the cyclical balance sheet needs of the dealer community, and the global demand for dollars among other factors. In all cases, however, we focus on capital preservation and liquidity.
- **Risk Management:** Risk management is embedded in every stage of the investment process.

## The Client Fit

The Strategic Short-Term Strategy provides a solution for liquidity-conscious investors seeking to diversify and increase the return of their cash management program without sacrificing liquidity or quality.

## 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 Short Duration Strategies team consists of portfolio manager Tracey Keenan, Head of Short Duration Strategies, and three research and implementation professionals. Given our emphasis on exploiting pricing inefficiencies in G10 sovereign debt and cash markets, we believe that the optimal portfolio management structure comprises a small, cohesive team of highly experienced investors with clearly defined roles working in a collaborative fashion. The team is supported by additional research, trading, and operations professionals at the firm.

## RISK

Risks associated with investing in the Strategy may include Market Risk - Fixed Income, Credit Risk, Large Shareholder Risk, Management and Operational Risk, and Market Disruption and Geopolitical Risk.