SYSTEMATIC INVESTMENT GRADE CREDIT STRATEGY

The Opportunity

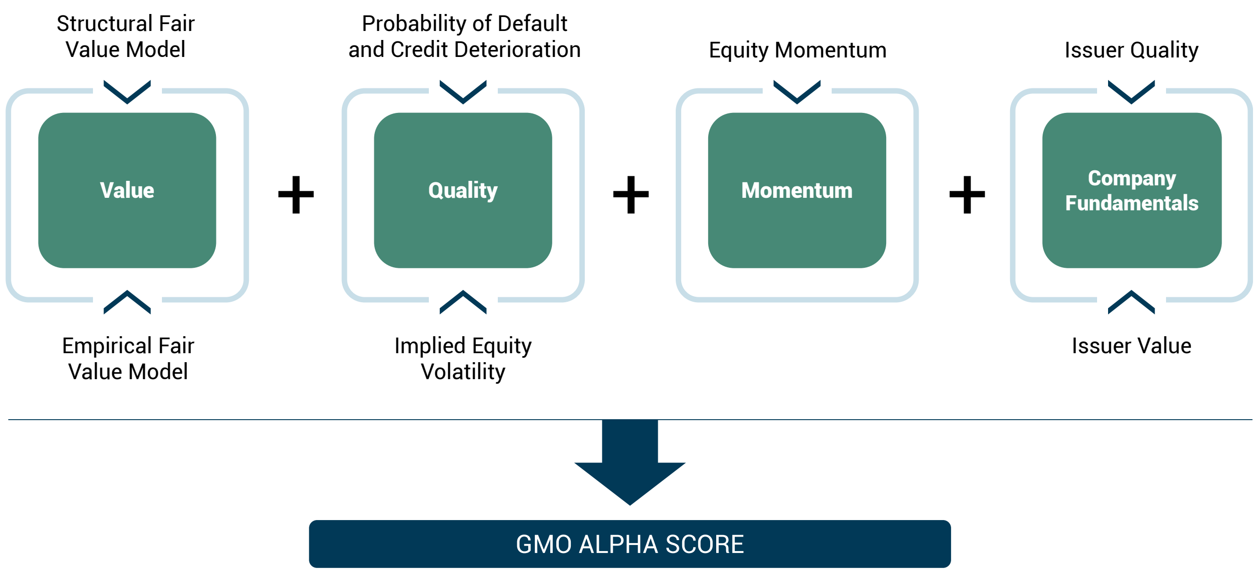
As a component of broad U.S. fixed income indices, investment grade corporate credit now stands around 25% of notional market capitalization. Investment grade corporate credit spans all major sectors and offers relatively lower default risk and higher quality access to corporate balance sheets across the global economy. At GMO, we have developed quantitative corporate credit capabilities that allow us to seek alpha through systematic approaches that can be customized to any part of the investment grade universe.

The GMO Solution

The GMO Systematic Investment Grade Credit Strategy seeks to generate total return in excess of its benchmark, the Bloomberg U.S. Corporate Index, by employing a factor-based bond selection process. The process utilizes a systematic approach, where bonds are cross-sectionally scored according to proprietary value, quality, momentum, and company fundamental signals. The portfolio construction process relies on a robust and flexible mean variance optimization setup, that attempts to maximize alpha subject to constraints. Constraints are dictated by the investment universe and portfolio guidelines, but often include bounds on active country, sector, and issuer concentrations while considering interest-rate, spread, and key-rate duration exposures. Liquidity screening provides a filtered universe that is tradeable in the secondary market, and turnover is managed to help contain transaction costs within a budget.

BOND ALPHA ENGINE

GMO scores bonds based on a blend of value, quality, momentum, and issuer fundamentals



Several key features differentiate the GMO Systematic Investment Grade Credit Strategy:

- Innovative Approach: Our Systematic Credit strategies draw on GMO's extensive research and quantitative investment expertise across both fixed income and equity asset classes.
- Diversified Process: GMO's quantitative style is distinct in this space, offering a differentiated and complementary solution relative to the platform of broad investment grade credit managers.
- Flexible Framework: GMO's approach can be tailored to different investable universes and calls on the same themes of value and quality that permeate our organization. This approach allows us to adjust our solutions to consider various parameters and meet multiple objectives.
- Trading and Implementation: GMO has deep trading capabilities in both synthetic and cash bond securities. The same team trades all investment grade and high yield corporate credit, taking advantage of shifts in issuance and credit quality.

The Client Fit

The GMO Systematic Investment Grade Credit Strategy is an appropriate fit for clients seeking investment grade corporate credit exposure that is managed in a systematic, risk-mitigated way. The Strategy aims to maximize risk-adjusted returns, net of transaction costs, subject to client specified guidelines on duration, maturity, sector concentration, ratings, etc. and compliments fundamental or other fixed income investment approaches within the asset class.

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 Systematic Credit team is co-managed by Jason Hotra and James Donaldson. The team is cross-asset in nature, drawing on expertise from both equity and credit quantitative research to inform the Strategy. Team members have advanced training in finance, economics, math, statistics, and computer science – experience that they draw on in the development and implementation of GMO's Systematic Credit strategies.

RISK

Risks associated with investing in the Strategy may include Market Risk - Fixed Income Investments, Credit Risk, Illiquidity Risk, Derivatives Risk, and Short Sales Risk.

