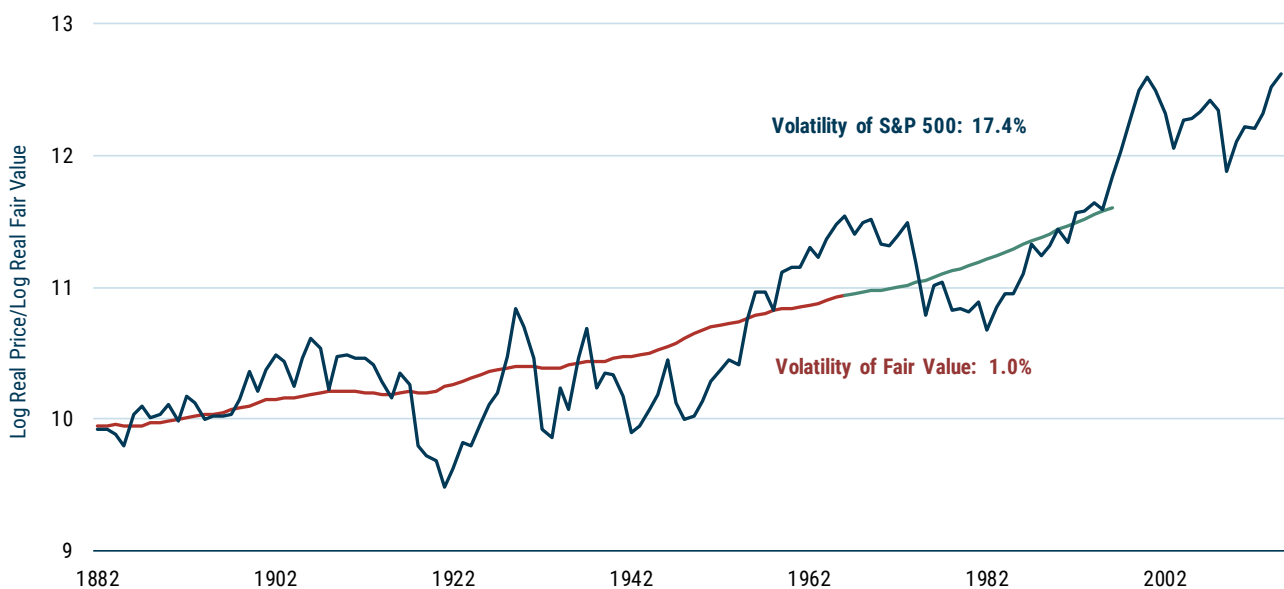


TAX-MANAGED BENCHMARK-FREE STRATEGY

The Opportunity

Markets are inefficient and asset prices are often far removed from their long-term fair value. Yet many portfolio management teams and even investment committees are hesitant to exploit this phenomenon and take large positions against their benchmark, even when valuations justify it. The driver of that hesitation is “career risk,” or the risk of looking silly or wrong in the short term. GMO, on the other hand, is prepared to take a contrarian view. Indeed, it is our willingness to embrace career risk that allows us to avoid capital-destroying bubbles and take advantage of attractively priced bargains. This is the opportunity.

PRICES ARE SIGNIFICANTLY MORE VOLATILE THAN FUNDAMENTALS



As of 12/31/17 | Source: Robert Shiller, Federal Reserve, GMO

Fair value based on next 50 years of dividends and earnings. Green series is approximation of clairvoyant value given shorter history.

Fundamental fair value acts as an anchor over time, but in the short-term markets are driven by investor sentiment, whether through fear, greed, or simply herding. Most investors are unwilling or unable to accept the career risk associated with acting independently for sustained periods and, consequently, have become increasingly tied to benchmarks. We believe we can take advantage of this behavior by taking bold, unconventional positions within our portfolios and, if necessary, holding them longer than the pain threshold of most other market participants. Indeed, it is often when a particular asset class is out of favor that it trades at its most attractive pricing.

In addition, the typical approach to tax-sensitive investing is either non-existent or siloed--that is, little thought is given to tax implications across asset classes in a multi-asset class framework. Equities, municipal bonds, and alternatives may each be tax-managed in their own particular way, but there is no overarching or dynamic

“The market gets increasingly inefficient as investors become more reluctant to bet against the benchmark...As the opportunities to add value increase so does the personal risk, the career risk, and the business risk, until finally there will be incredible opportunities to make money and reduce risk that no one will dare to take advantage of. We would like at least to be the last ones trying...”

– Jeremy Grantham, Q1 2001

asset allocation framework that optimizes the asset class mix for after-tax results. Yet taxes are perhaps the greatest headwind to compounding wealth effectively. With this strategy, GMO is among the first in the industry to offer a tax-managed solution within the context of a benchmark-free, multi-asset class framework.

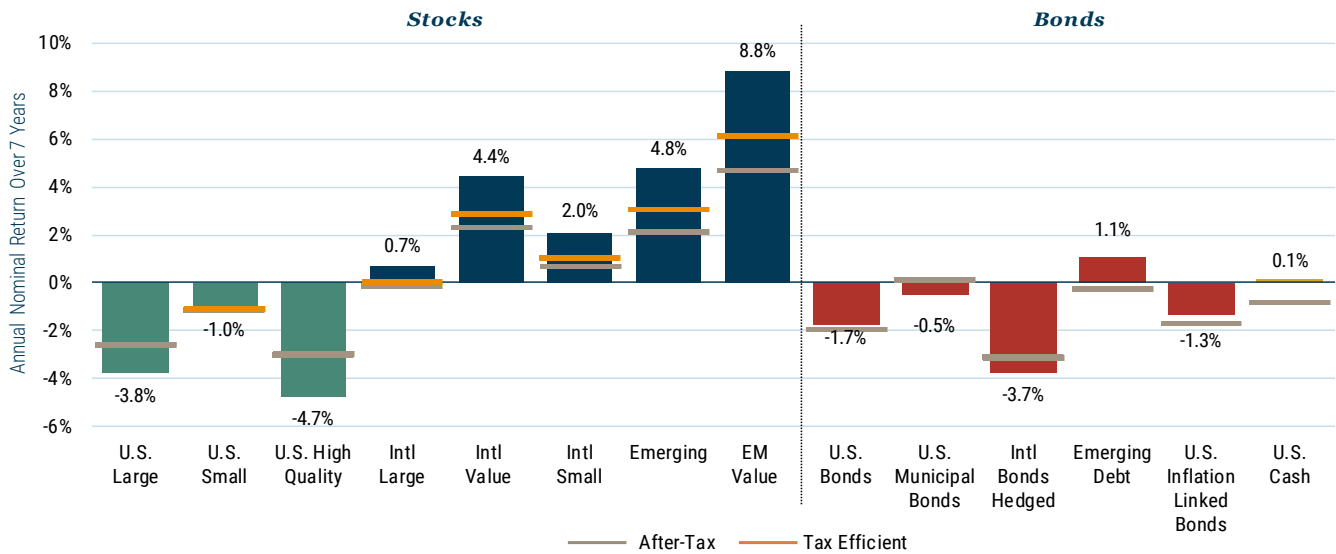
The GMO Solution

We maintain an objective and disciplined view of asset prices around the world. We use this consistent valuation approach and philosophy to answer one fairly basic question – is an asset priced to deliver good long-term after-tax returns or is it priced to deliver dismal long-term returns? We express the answer to this question through the medium of our well-regarded 7-Year After-Tax Asset Class Forecasts. The objective of the GMO Tax-Managed Benchmark-Free Strategy, as the name implies, is to compound wealth, not beat benchmarks. Specifically, the goal of this strategy is to generate after-tax returns of 3% (net of fees) above CPI.

It is first and foremost our assessment of valuation, rather than considerations such as benchmark weight, that drives our approach to portfolio construction. We do not try to manage tracking error or volatility, nor do we aim to have a view on everything. Instead, we focus on what we do best: Getting the big picture right.

We actively allocate assets across a broad opportunity set and, quite simply, build portfolios of assets that we believe offer enough compensation for the risks involved in owning them. We avoid assets that appear expensive. As valuations change, so does our portfolio. We are unafraid to hold portfolios that look nothing like those of our peers or a traditional benchmark.

7-YEAR ASSET CLASS NOMINAL RETURN FORECASTS*



As of 6/30/19 | Source: GMO

Assumes federal tax rates of 23.8% for long term capital gains and qualified dividends and 40.8% for short term capital gains, non-qualified dividends and income; does not include state taxes. Assumes 100% turnover of equities and that bonds are held to maturity. Forecasts exclude currency impact. Tax efficient implementation assumes gains are taxed at long term capital gains rates if positive and short term capital gains rates if negative.

*The chart represents nominal return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

As long-term investors, we use our patience to our advantage by bearing risk only when we believe we will be adequately rewarded for doing so. We are well aware that avoiding drawdowns by refusing to overpay for assets can be essential to long-term success. When beholden to a fully invested benchmark or a tracking error target, it may be unpalatable or even impossible to avoid recklessly chasing returns in overpriced markets. We aim to never overpay for an asset because we consider doing so to be the greatest risk. Our approach seeks to compound wealth over the long term with an emphasis on managing investment risk, not relative risk or career risk.

We have a strong conviction that this is a successful approach, and our historic results bear impressive testament to this. However, because the reversion of an asset's price to fair value can take an uncertain, and often extended, period of time, it can try the patience of even high-conviction investors. Valuation-based investing is not always fun or comfortable – that is probably why it works. As a privately held firm, we have no shareholders or parent company fixated on short-term profitability or assets under management. Instead, we have spent 40 years building a culture that focuses on our clients and our ability to help them achieve long-term outcomes.

TAX MANAGEMENT

GMO has a long history of managing assets in a benchmark-free manner. The Tax-Managed Benchmark-Free Strategy takes that same benchmark-free approach and investment philosophy and enhances it to better fit taxable clients. The Strategy has three layers of tax management:

ASSET ALLOCATION

- Use after-tax forecasts to make top-down asset allocation decisions.
- Take special care in assessing after-tax expected returns of credit markets and alternative strategies, which are not particularly tax-efficient.
- Consider dynamic shifts within the context of tax time horizons.



GLOBAL EQUITY

- Bottom-up portfolio construction seeks to maximize expected alpha net of costs, including transaction costs and taxes.
- Where appropriate, generate additional after-tax alpha through tax loss harvesting.

FIXED INCOME

- Maintain bias toward actively managed municipal bond portfolio.

The Client Fit

There are several ways that our clients use the GMO Tax-Managed Benchmark-Free Strategy in their portfolios. The most common approaches are:

- **As a hedge fund alternative:** The Tax-Managed Benchmark-Free Strategy is considered a hedge fund replacement and sits as a part of a hedge fund or Global Tactical Asset Allocation (GTAA) bucket. In this regard, GMO is often paired with other managers that employ absolute return and risk parity strategies.
- **As a "swing" portfolio:** Investors that use static or strategic benchmarks often employ strategies like this to make dynamic asset allocation shifts that they feel either ill-equipped or unwilling to make themselves.
- **As a core holding:** In this scenario, the GMO Tax-Managed Benchmark-Free Strategy acts as something akin to an outsourced CIO and manages a significant portion of the investor's overall portfolio (perhaps split with one or two other multi-asset managers). This approach is often adopted by taxable individuals or entities that are philosophically aligned with the

Strategy's approach of compounding after-tax wealth over the long term while viewing risk as the permanent impairment of capital (rather than volatility or lagging the benchmark). It is considered a "core" holding to the extent that the strategy's objective is in sync with the investor's core mission.

- **As a complement to illiquid portfolios:** Many taxable entities such as ultra-high net worth individuals or family offices often have a meaningful commitment to illiquid private equity portfolios, or wealth that is tied up in actual businesses. The Tax-Managed Benchmark-Free Strategy aims to be a relatively liquid strategy, and it is likely to be meaningfully more liquid than other portions of an aggregate wealth portfolio.
- **Taxable Institutions:** Insurance assets, Nuclear Decommissioning Trusts (NDTs), Operating Funds and other taxable institutions find the tax-managed sensitivity quite useful.

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

Asset allocation is not a subset of GMO's offering; it is a principal competency of the firm. We have been managing broad-based asset allocation portfolios formally since 1988 and have developed a specialty in valuing asset classes. We seek to provide positive absolute returns by focusing on the most attractively priced asset classes and aiming to avoid the most over-priced asset classes. We have built a broad and deep team, with diverse areas of expertise.

RISK

Risks associated with investing in the Strategy may include Tax-Management Risks, Equities Risks, Fixed Income Risks, Municipal Securities Risks, and Risks of Non-U.S. Investments.