EQUITY DISLOCATION STRATEGY

The Opportunity

The Strategy was launched after a decade of low rates and tepid growth led investors to aggressively bid up the relative valuations of Growth stocks. The Covid environment stoked investor frenzy around fast-growing companies, catapulting them to "bubble" levels. Following a period of strong Value performance, in 2023 the Value-Growth valuation spread widened dramatically, driven by outperformance of U.S. Growth companies. With the dislocation between Value and Growth stocks at a top decile level compared to history, we believe that Equity Dislocation offers considerable upside potential from here.

VALUE IS EXTREMELY CHEAP



As of 9/30/2026 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, and Price/Economic Book.

- The scale of the opportunity was initially similar to the one created by the TMT bubble and continues to be compelling.
- In sharp contrast to the TMT bubble, benefiting from the current valuation spread does not require a concentrated sector bet against Information Technology. Further, this opportunity is a global phenomenon, spanning both developed and emerging markets.
- While we cannot predict the timing, spreads can close quickly. If the rebound in Value is as extreme as after the TMT bubble, our expectation is that we would close the Strategy and return capital to investors. Even if the valuation spread remains wide, we believe Value will outperform due to a higher-than-normal rebalancing effect.

The GMO Solution

EFFECTIVELY EXPLOITING A GROWTH BUBBLE REQUIRES A LONG/SHORT STRATEGY

In order to generate an absolute return from a Growth bubble, one needs to be short Growth. However, we believe simply being short equity is a challenging way to try and make money. Success from merely being short Growth requires precise timing when calling a catalyst. We would much rather build a more robust long Value/short Growth portfolio.

PASSIVE IMPLEMENTATION RESULTS IN UNWANTED AND UNREWARDED EXPOSURES

As a fairly straightforward approach, one could simply use style box indices to construct the long and short sides of a portfolio. However, this entails massive and unnecessary sector and industry bets, excessive stock specific risk, and importantly not every Growth company is overvalued nor is every Value company cheap.

MARKET NEUTRAL, RISK-CONTROLLED, AND ALPHA-FOCUSED STRATEGY

We have no quarrel with genuine secular growth, provided it is priced properly. Assessing a fair value for each stock in the universe and focusing on the extremes of valuation, allows us to build a long/short portfolio with the aim of providing very strong absolute returns with little or no net "beta" exposure. The short side of the Strategy features stocks where valuations are reflective of implausible growth expectations. The long side of the Strategy is predominantly composed of stocks that are currently unloved by the market.

Both the long and the short sides are extremely diversified, with broadly 200 names on each side and individual position sizes typically not exceeding +/-1%. This ensures that there is no disproportionate exposure to mega caps and the success of the Strategy is not unduly influenced by a handful of winning or losing names.

We aim to be market neutral and to have an approximate ex-ante beta of zero. Small net positions in countries are allowed. There is significant discrepancy in valuations across different sectors and, of course, we intend to capture that to a degree. However, sector bets are capped at a relatively modest level as we do not want this to be merely a Financials and Resources versus Information Technology and Communication Services play.

The Client Fit

We believe the GMO Equity Dislocation Strategy can enhance return and reduce risk in a diversified investment program. It can serve in a wide array of roles, including as an uncorrelated source of return in a traditional balanced portfolio, as part of a diversified hedge fund allocation, in a liquid alternatives program, or as a way to reduce the beta within a global equity allocation. The Strategy could also be used as a positive expected return hedge for a Growth style equity portfolio.

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

The Strategy is co-managed by GMO's Asset Allocation and Systematic Equity teams, who have a long history of collaboration on both research projects and investment strategies. Each group has built a deep team with diverse areas of expertise.

Asset allocation is a principal competency of the firm. The Asset Allocation team has been managing broad-based asset allocation portfolios formally since 1988 and has developed a specialty in valuing asset classes.

GMO's Systematic Equity team is a pioneer in quantitative investing for institutions, building on decades of accumulated research on how to best capture valuation opportunities and other mispricings.

RISK

Risks associated with investing in the Strategy may include Management and Operational Risk, Market Risk - Equities, Non-U.S. Investment Risk, Smaller Companies Risk, and Derivatives and Short Sales Risk.

Information as of October 2026 | **GMO LLC © 2026**