

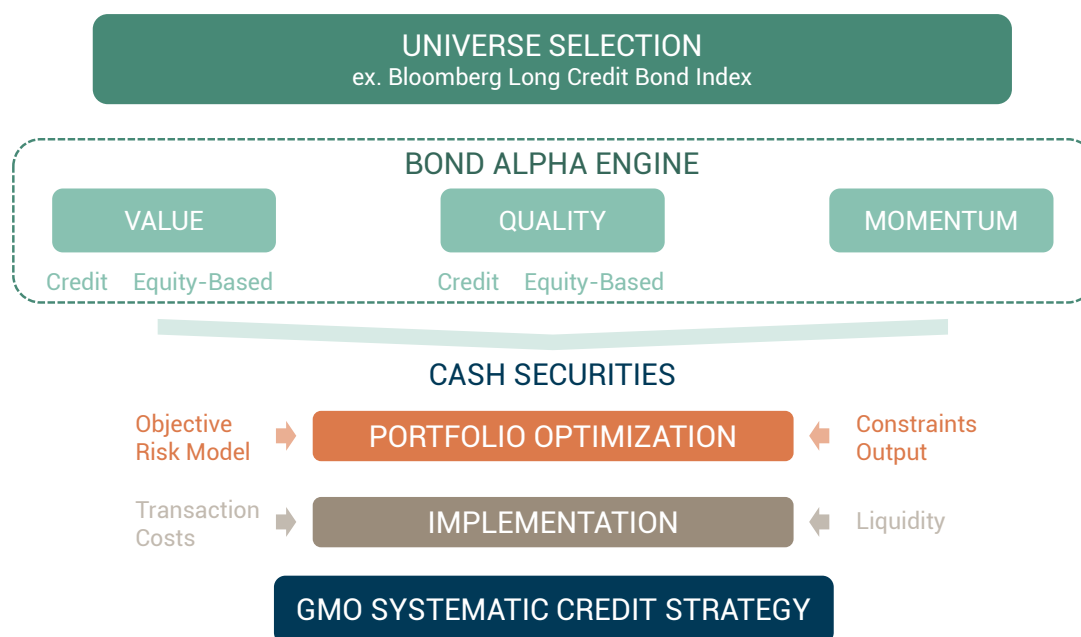
# LIABILITY-DRIVEN SYSTEMATIC FIXED INCOME STRATEGY

## *The Opportunity*

Liability-Driven Investing (LDI) is an outcome-oriented investment style designed to match pension obligations over a period of time. Institutional asset owners will typically benchmark to targets set at the overall institutional portfolio level to meet capital preservation or return objectives. As such, LDI by design requires dynamic solutions to meet clients' ever-evolving needs. LDI is not a one-size-fits-all problem; asset owners must adapt their portfolio over time. In the past decade, the U.S. long bond market has doubled in size to \$4.3 trillion as of June 2022. According to eVestment, assets under LDI-dedicated management have also doubled in the past ten years, reaching approximately \$1.3 trillion in March 2022.

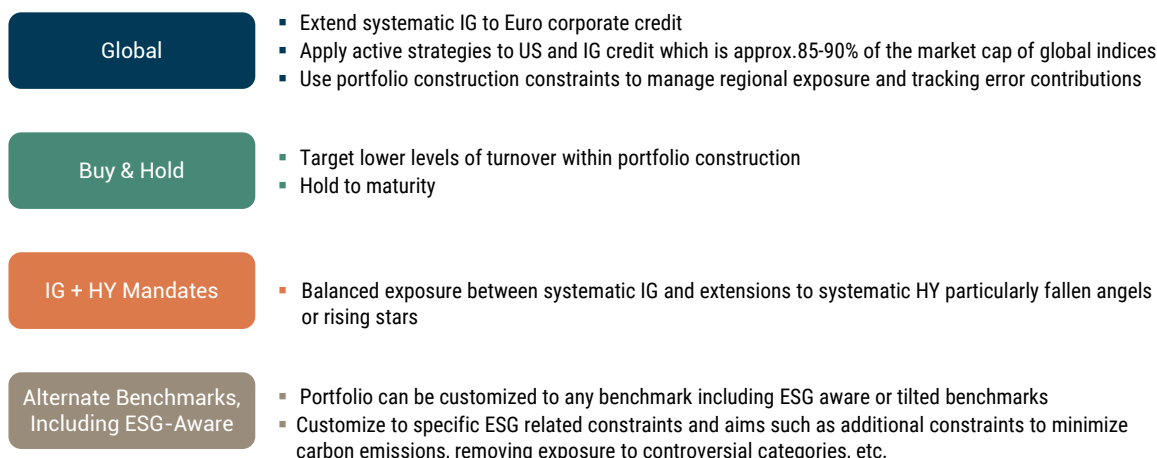
## *The GMO Solution*

GMO has a long history of engaging with clients across their full investment cycle, and our customizable and flexible LDI solutions are designed to help them meet their objectives. The GMO Liability-Driven Systematic Fixed Income Strategy, or LDSFI, is built on the foundation of GMO's Systematic Credit Strategy applied to the long-dated corporate credit benchmark. This can be customized to a client's specific liability benchmark and is currently managed against the Bloomberg Long Credit Index. GMO's Systematic Credit Strategy is an active corporate credit strategy that seeks to generate alpha through factor-based models for credit selection. The Strategy allocates to value, quality, and momentum captured through proprietary fair value models, measures of changes in default risk, and momentum signals derived from credit and equity assets. Environmental, social, and governance (ESG) factors are considered a component of the quality pillar at GMO, and the portfolio targets an overall ESG profile higher than that of the benchmark. Risk is managed through quantitative portfolio construction methods that control for overall benchmark spread, duration, ratings, and risk characteristics.



## BUILDING BLOCKS: VARIATIONS ON THE THEME

The systematic credit component of LDSFI can be methodically complemented with other fixed income capabilities, such as high yield, emerging market credit, or rates and currencies. In addition, the portfolio can be customized to any benchmark, including those that are ESG-aware. Further, various building blocks (including ESG-related components, ratings composition or tolerance, and balanced exposure between investment grade and high yield sectors) can be applied in various ways to meet a client's liability targets.



Several key features differentiate the GMO Liability-Driven Systematic Fixed Income Strategy:

- **Systematic Credit:** Systematic credit strategies draw on GMO's innovative research and quantitative investment expertise across asset classes to invest in investment grade and high yield corporate credit.
- **Innovative Approach:** GMO's quantitative style is distinct in this space, offering a differentiated and complementary solution relative to the platform of broad LDI managers. Corporate credit exposures can be combined systematically with capabilities in all other fixed income asset classes to achieve client objectives.
- **Nimble:** GMO's approach can be tailored to different investable universes and calls on the same themes of value and quality that pervade our organization. This approach allows us to adjust our solutions to consider various parameters and meet multiple objectives.
- **Trading and Implementation:** Our trading team's capabilities are deep in both synthetic and cash bond securities and have operated successfully through varying market liquidity conditions. Our benchmark replication techniques utilize a quantitative methodology, allocating among cash bonds, futures, derivatives, and ETFs to construct a low-cost representation of the benchmark upon which we add multiple alpha streams.

## The Client Fit

The GMO Liability-Driven Systematic Fixed Income Strategy is an appropriate fit for clients seeking:

- To meet LDI and other pension liability-driven obligations with primary exposure to corporate credit managed in a systematic, risk-mitigated way.
- Alpha delivered through exposures to value, quality, momentum, and well-articulated sources of risk premium in corporate credit with specified exposures to duration, sector concentration and credit rating or other dimensions of credit risk.
- ESG considerations can be targeted explicitly within portfolio construction and systematically evaluated to inform design. The portfolio can be screened relative to the benchmark and biased toward specific ESG objectives such as carbon intensity, GHG emissions, or the overall profile.

- Opportunities to combine investment grade corporate credit exposure with GMO's capabilities in emerging market debt, rates and currencies, and other sectors of credit such as securitized, high yield or distressed credit, and the ability to construct such solutions using systematic portfolio construction methods.
- To complement fundamental or other LDI styles with a quantitative and customizable approach to meet their portfolio objectives

## **Who We Are**

Founded in 1977, GMO is a global investment manager committed to delivering superior performance and advice to our clients. Our sole business is investment management, and we are privately owned, which allows us to maintain a singular focus on achieving outstanding long-term outcomes for our clients. Offering solutions across multi-asset class, equity, fixed income, and alternative strategies, we are grounded in a common philosophical belief that a long-term, valuation-based approach will maximize risk-adjusted returns. We also believe that material ESG factors will be determinants of success of the companies and countries in which we invest, and that integrating ESG into investment processes can improve our long-term results. Known for our willingness to challenge the status quo and our creative approach to investment problems, we candidly share our market views and take bold, differentiated portfolio positions when conditions warrant them.

## **The Team**

GMO's Systematic Credit/LDI 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, physics, 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 and Short Sales Risk, and Market Risk-Asset-Backed Securities Risk.