

WORLD MARKET NEUTRAL STRATEGY

The Opportunity

The Strategy seeks positive return regardless of market conditions by maintaining long exposure to stocks that we consider attractive and short exposure to stocks that we consider unattractive. The Strategy uses a combination of proprietary stock selection models such as Valuation, Quality, and Momentum to determine the attractiveness of each individual stock. It is expected that the Strategy will have a low correlation to traditional risk assets so it may play a role when considering risk and return in traditional balanced portfolios.

The GMO Solution

GMO has long been a pioneer and innovator in Value and Quality investing. Value investing requires an accurate assessment of company fundamentals, and GMO Economic Book addresses many of the flaws and distortions prevalent in traditional generic metrics. Our strong track record in Quality investing extends back more than 20 years, and the insights we have acquired help to inform our forward-looking projections for individual companies. We overlay these core tenets of investing with momentum and alerts, to generate incremental returns from indicators of sentiment, improving fundamentals, and aiming to avoid potential value or growth traps.

WORLD MARKET NEUTRAL DIFFERENTIATED MODELS

Research builds distinctive alpha sources across both individual companies and groups of stocks

Value & Quality

Proprietary GMO Economic Book
better represents fundamentals

- GMO Economic Book is the foundation for Value and Quality models that we believe reflect economic reality
- We are willing to pay a premium for quality companies which have historically earned more, more consistently, with low debt

Momentum

Captures sentiment from
market and alternative data

- Idiosyncratic stock momentum captures a mix of sentiment and improving fundamentals
- Network momentum, the momentum of related groups of stocks, is a separate and distinct force

Alerts

Highlights potential
value traps and growth traps

- Market signals, accounting choices, and management decisions used to identify suspicious corporate behavior
- Alerts combines otherwise sparse signals to build conviction in predominantly negative views

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

The eligible universe for both the long and short side consists of developed market equities. Assessing a fair value for each stock in the universe allows us to build a long/short portfolio with the aim of providing positive returns with little or no net “beta” exposure. Both the long and the short sides are extremely diversified, with broadly 250 to 300 names on each side and individual position sizes typically not exceeding +/-1% at each portfolio rebalance. 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 maintain exposure at broadly 200% long and 200% short to have an approximate ex-ante beta of zero. Indeed, beta, country, and sector exposures are managed relative to the MSCI World benchmark on both the long and the short side and, in particular, we do not expect there to be significant net exposures to any country, sector, or industry group.

The Client Fit

We believe the GMO World Market Neutral 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. It is also possible to combine the GMO World Market Neutral Strategy with any desired equity or bond beta using a futures overlay.

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 GMO 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.