

# HIGH YIELD PROFILE

## INVESTMENT OPPORTUNITY

The high-yield market offers elevated income potential for taking on default and liquidity risk. The asset class has historically had much less interest-rate sensitivity than most other fixed-rate segments of the bond market. Many investors traditionally have used a bottom-up, fundamental approach to investing in high yield, which we believe introduces alpha opportunities for our differentiated, factor-based investment process.

## GMO APPROACH

### Factor-Based Approach:

We employ a distinctive top-down factor-based investment process that exploits structural inefficiencies combined with a quantitative process set apart from the dominant fundamental approach in the asset class.

### Focus on Long-Term Alpha:

GMO High Yield is designed to generate a steady alpha stream through the credit cycle, resulting in superior long-term, risk-adjusted potential returns. The portfolio is defensive by construction, with a tilt towards higher quality sources of alpha.

### Liquid and Scalable:

The portfolio aims to be more liquid than the average high yield bond portfolio. An agile portfolio construction process can provide diversification and replicability at any size.

## TOP-DOWN FACTORS

Aim to exploit structural inefficiencies in the high yield market

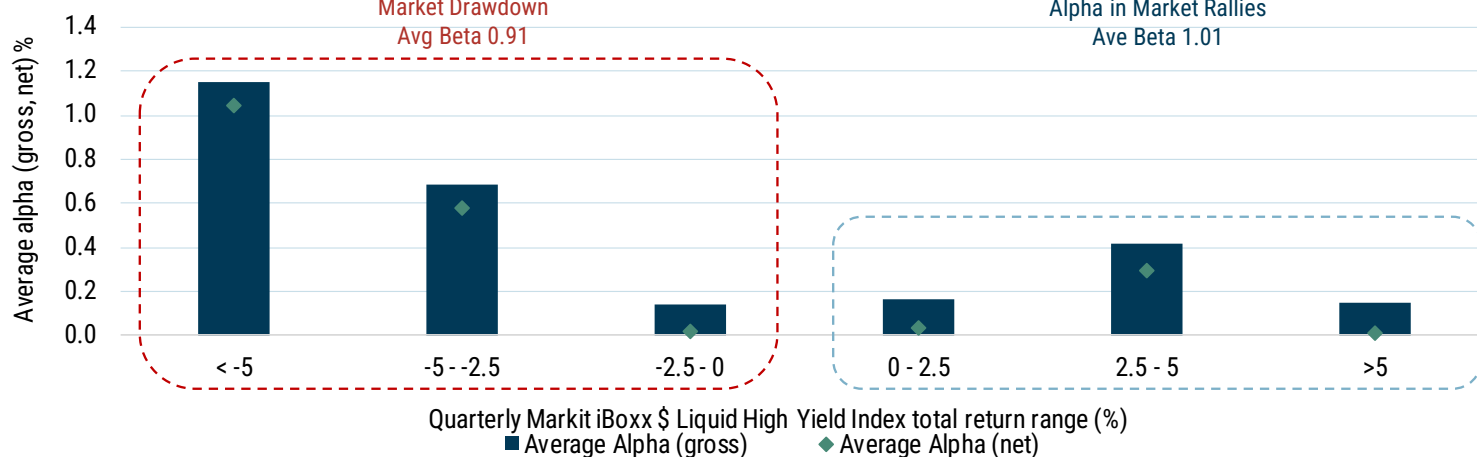
- CARRY** → Return earned from spread and rolldown across cash and synthetic instruments if market conditions remain unchanged.
- QUALITY** → Harvests premium in high quality i.e., BB bonds. Factor provides better risk-adjusted potential returns through lower default rate and less volatility
- FALLEN ANGELS** → Recently downgraded bonds tend to get oversold as they transition from IG to high yield
- SHORT DURATION, LOW RATED** → Lower rated, short maturity bonds are often overlooked, given asymmetrical risk profile and illiquidity. Default risk mitigated through diversification and issuer risk limits
- VOLATILITY** → Demand-supply imbalance in the credit options market keeps implied volatility elevated vs. realized
- BENCHMARK ARBITRAGE** → Portfolio products can often trade at a discount to fair value, presenting the opportunity to harvest alpha with a low tracking error

## RESILIENT ALPHA ACROSS MARKET ENVIRONMENTS

While staying fully invested

Outperformance During  
Market Drawdown  
Avg Beta 0.91

Consistent and Steady  
Alpha in Market Rallies  
Ave Beta 1.01



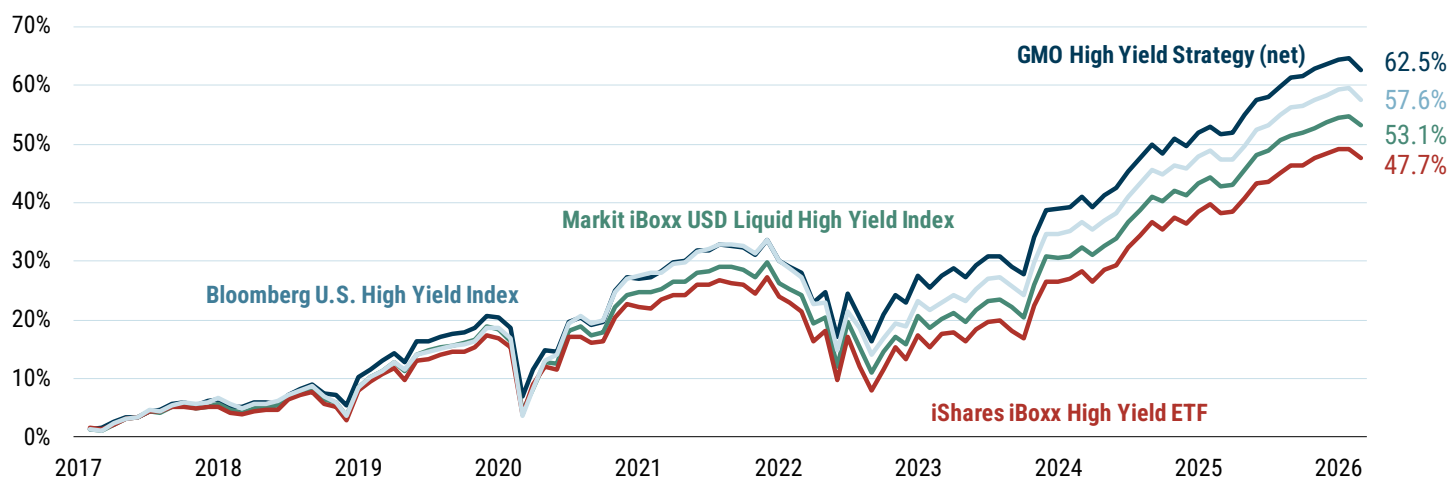
From 3/31/17 to 3/31/26 | Source: GMO. Performance data quoted represents past performance and is not predictive of future performance. Net returns are presented after the deduction of a model advisory fee and a model incentive fee if applicable. Net returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. Gross returns are presented gross of management fees and any incentive fees if applicable. Gross returns include transaction costs, commissions, withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. If management fees were deducted performance would be lower. A GIPS compliant presentation of composite performance has preceded this presentation in the past 12 months or accompanies this presentation, and is also available at [www.gmo.com](http://www.gmo.com). Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's compliant presentation. GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is included in the Important Information section at the back of this presentation. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.

## CONTACT US

For more information on this product please email us at [access@gmo.com](mailto:access@gmo.com) or reach out to your relationship manager.

## HIGH YIELD PROFILE

CUMULATIVE PERFORMANCE (NET OF FEES) VS. BENCHMARK, ANOTHER COMMON HIGH YIELD INDEX AND WELL-KNOWN HIGH YIELD ETF



As of 3/31/26 | Inception Date 1/31/17 | Source: GMO

Performance data quoted represents past performance and is not predictive of future performance. Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. **A GIPS compliant presentation of composite performance has preceded this presentation in the past 12 months or accompanies this presentation, and is also available at [www.gmo.com](http://www.gmo.com). Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's compliant presentation. GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®). A Global Investment Performance Standards (GIPS®) Composite Report is included in the Important Information section at the back of this presentation. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.** The Markit iBoxx USD Liquid High Yield Index is an independently maintained index consisting of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe. The above information is based on a representative account selected because it has the least number of restrictions and best represents the implementation of the strategy.

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## HIGH YIELD

## OVERVIEW

The GMO High Yield Strategy seeks to generate total return in excess of that of its benchmark, the Markit iBoxx USD Liquid High Yield Index, by applying a systematic, factor-based approach to portfolio construction. It is designed to capture alpha from top-down sources of risk premia, taking advantage of structural market inefficiencies, while maintaining a liquid portfolio. Our top-down, data-driven approach (in what is still largely a fundamentally managed asset class) brings a unique perspective that allows us to allocate capital across a range of high yield instruments in an effort to achieve optimal risk-adjusted returns in excess of the Strategy's benchmark.

## FACTS

Strategy Inception	31-Jan-17
Composite Inception	31-Jan-17
Total Assets	\$188mm USD
Benchmark	Markit iBoxx USD Liquid High Yield

## CUMULATIVE TOTAL RETURNS (USD, NET OF FEES, %)

	<i>MTD</i>	<i>QTD</i>	<i>YTD</i>	<i>2025</i>	<i>2024</i>	<i>2023</i>	<i>2022</i>	<i>2021</i>
Composite	-1.22	-0.72	-0.72	9.30	7.88	12.93	-7.96	5.00
Benchmark	-1.02	-0.44	-0.44	8.83	7.95	12.89	-10.74	4.48

## RISK PROFILE (5-YEAR TRAILING)

Alpha (Jensen's)	0.75
Beta	0.97
R Squared	0.98
Sharpe Ratio	0.19
Standard Deviation	7.07

## ANNUALIZED TOTAL RETURNS (USD, NET OF FEES, %)

	<i>1 Year</i>	<i>3 Years</i>	<i>5 Years</i>	<i>10 Years</i>	<i>ITD</i>
Composite	7.18	8.40	4.84	-	5.44
Benchmark	7.13	8.40	4.11	-	4.76

## PORTFOLIO MANAGEMENT



Joe Auth, CFA  
Joined GMO in 2014  
MBA, University of  
Connecticut



Rachna  
Ramachandran  
Joined GMO in 2019  
MS, City, University of  
London

**Risks:** Risks associated with investing in the Strategy may include: (1) Management and Operational Risk: the risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility; (2) Market Risk - Fixed Income Investments: the market price of a fixed income investment can decline due to a number of market-related factors, including rising interest rates and widening credit spreads or decreased liquidity stemming from the market's uncertainty about the value of a fixed income investment (or class of fixed income investments); and (3) Credit Risk: the risk that the issuer or guarantor of a fixed income investment or the obligor of an obligation underlying an asset-backed security will be unable or unwilling to satisfy its obligation to pay principal and interest or otherwise to honor its obligations in a timely manner. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information.

**Performance Returns:** Returns shown for periods greater than one year are on an annualized basis. To obtain performance information to the most recent month-end, visit [www.gmo.com](http://www.gmo.com). **Performance data quoted represents past performance and is not predictive of future performance.** Net returns are presented after the deduction of a model advisory fee and incentive fee if applicable. These returns include transaction costs, commissions and withholding taxes on foreign income and capital gains and include the reinvestment of dividends and other income, as applicable. Fees paid by accounts within the composite may be higher or lower than the model fees used. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available at [www.gmo.com](http://www.gmo.com) by clicking the GIPS® Composite Report link in the documents section of the strategy page. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Actual fees are disclosed in Part 2 of GMO's Form ADV and are also available in each strategy's Composite Report.

## HIGH YIELD

## CHARACTERISTICS

	<i>Portfolio</i>	<i>Benchmark</i>
Spread	304.4bps	334.6bps
Effective Duration	2.9	3.0
Average Credit Rating	BB-	B+
Weighted Average Life	4.0	4.6

## CREDIT RATINGS (%)

	%
BBB	1.1
BB	56.8
B	30.9
CCC	9.4
CC	0.7
C	0.0
NR	1.1

## SECTORS (%)

<i>Sector</i>	<i>Portfolio</i>
Agencies	0.2
Financial Institutions	11.1
Industrial	84.2
Utility	4.5

## HIGH YIELD

## IMPORTANT INFORMATION

**Benchmark(s):** The Markit iBoxx USD Liquid High Yield Index is an independently maintained index consisting of liquid USD high yield bonds, selected to provide a balanced representation of the broad USD high yield corporate bond universe.

The above information is based on a representative account in the Strategy selected because it has the fewest restrictions and best represents the implementation of the Strategy.

For private bank intermediaries in Singapore and Hong Kong, these materials are intended for institutional and Accredited/Professional Investors Use Only.

## GLOSSARY

**Characteristics:** Average Credit Rating is a market value weighted measure of bond holdings. **Credit Ratings:** The credit ratings above may encompass emerging debt, developed rates, and asset-backed exposure. Ratings for core portfolio holdings are derived by using the middle rating from Standard & Poor's, Moody's, and Fitch. Ratings for core holdings were adjusted during the January 2021 reporting period to conform with index provider methodology. Ratings for the emerging debt portion of the portfolio are derived by applying the Standard and Poor's or Moody's issue-level ratings (sequentially), and the S&P LT Foreign currency (FC) country issuer rating for the FC debt securities and/or S&P LT Local currency (LC) country issuer rating for LC securities where a security is not rated by either of the abovementioned credit rating agencies. Final credit ratings are expressed based upon Standard and Poor's ratings scale. Standard & Poor's rates securities from AAA (highest quality) to C (lowest quality), and D to indicate securities in default; some securities are not rated (NR). BB and below are considered below investment grade securities. Please refer to our website for additional information: <https://www.gmo.com/americas/benchmark-disclaimers/>

**Risk Statistics:** Risk profile data is net of fees. Alpha is a measure of risk-adjusted return. Beta is a measure of a portfolio's sensitivity to the market. R-Squared is a measure of how well a portfolio tracks the market. Sharpe Ratio is the return over the risk free rate per unit of risk. Std Deviation is a measure of the volatility of a portfolio. Please refer to <https://www.gmo.com/americas/glossary-of-terms/> for additional portfolio characteristic definitions.

## ABOUT GMO

Founded in 1977, GMO is a global asset manager committed to delivering superior performance and advice to our clients. We are privately owned, which allows us to singularly focus on our sole business – achieving outstanding long-term client investment outcomes. Offering multi-asset, equity, fixed income, and alternative strategies, we invest with a long-term, valuation-based philosophical approach.

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SAN FRANCISCO\*

SINGAPORE

SYDNEY

TOKYO\*\*

\*GMO's West Coast Hub is comprised of members of Investment, Global Client Relations, and other teams located in and around the Greater San Francisco area

\*\*Representative Office

# HIGH YIELD

## ADDITIONAL GLOSSARY OF TERMS

**Coupon**

The annual income received from a fixed-income security, expressed as a percentage of the par value of the security and par weighted on portfolio level.

**Credit (%)**

The proportion of a mutual fund's total net assets that is invested in credit instruments—such as corporate bonds, securitized debt, or other credit-related securities—expressed as a percentage. This metric indicates the fund's exposure to credit markets and associated credit risk.

**Effective Duration**

A measure of a portfolio's price sensitivity to interest rate changes, including expected changes in cash flows caused by embedded options. The higher the effective duration, the higher the sensitivity to interest rate changes.

**Maturity**

A weighted average of all the maturities of the bonds in a portfolio, computed by weighting each bond's effective maturity by the market value of the security.

**Modified Duration**

A measure of a portfolio's price sensitivity to changes in interest rates. It estimates the percentage change in price for a 1% (100 basis point) change in yield, assuming all other factors remain constant.

**Spread**

The difference between the yield on a bond or credit instrument and the yield on a benchmark security of similar maturity, typically a government bond. It reflects the additional compensation investors receive for taking on credit risk and is usually expressed in basis points.

**Spread Duration**

A measure of the portfolio's sensitivity to changes in credit spreads.

**Weighted Average Life**

A measure of average number of years until the principal of the securities is expected to be fully repaid.

**Yield to Maturity**

Represents the weighted average annualized return an investor would earn if the ETF's underlying bonds were held to maturity, assuming all interest payments are made as scheduled, bonds are held to maturity, coupons are reinvested at the same rate.