

U.S. TREASURY STRATEGY

The Opportunity

The environment for cash investing has changed significantly since the first money market fund was established in 1968, with one of the most impactful changes being the SEC's Money Market Reform of 2016. Most cash funds post regulation are now U.S. government-only money market funds and are highly regulated. They are constrained to a 397-day or less maturity, large in scale, and have a very narrow set of asset opportunities to choose from, which leads them to be price insensitive. These cash funds are not value oriented, often buying due to their mandate, even when assets are rich. This has resulted in attractive opportunities outside of the formal money market space, which allow for greater return potential without taking on additional risk.

The GMO Solution

The U.S. Treasury Strategy is designed to be an alternative to money market funds and seeks to add value by investing in securities outside of the traditional money market opportunity set. The Strategy utilizes a relative valuation approach, while maintaining capital preservation and liquidity standards.

The U.S. Treasury Strategy seeks to achieve its investment objective of maintaining a high quality bias by investing in securities that are secured and backed by the full faith credit of the U.S. government balance sheet, explicitly or implicitly. Specifically, the Strategy's opportunity set consists of at least 80% U.S. government securities, investing primarily in Direct U.S. Treasury Obligations and repurchase agreements collateralized by these obligations. The Strategy also may invest in agency and supra sovereign securities, such as those issued by the Federal Home Loan Bank and the World Bank, and in money market funds unaffiliated with GMO.

GMO's U.S. Treasury Strategy has a two-year max maturity and seeks to maintain an interest rate duration of one year or less. We believe that the merits of laddering maturities allow for a better liquidity profile. We assess the attractiveness of an instrument by examining its expected total return, liquidity, diversification and credit quality, typically seeking to maintain an overall portfolio estimated interest rate duration of 365 days or less.

GMO's Approach

Liquidity Risk	<ul style="list-style-type: none"> Can buy outside of money market space, but have a natural buyer once Treasury coupons roll in on the curve
Duration Risk	<ul style="list-style-type: none"> U.S. Treasury Bills are a one-year max maturity Too much competition from money market funds
Complexity	<ul style="list-style-type: none"> Corporate tax payments Debt Ceiling Quarter/year end

Five key features differentiate the GMO U.S. Treasury Strategy:

- Unique ability to take advantage of and dynamically allocate between opportunities in the market not accessible to the money market industry
- Focus on liquidity and capital preservation through investing in high quality, liquid assets
- Risk management and diversification embedded in every stage of the investment process
- Lead portfolio manager, Tracey Keenan, has 32 years industry experience and is a partner of GMO
- Stable and tenured team with a total of more than 80 years of industry experience

The Client Fit

The U.S. Treasury Strategy provides a solution for liquidity-conscious investors seeking to increase the return of their cash management program without sacrificing liquidity or quality.

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

GMO's U.S. Treasury Strategy team consists of portfolio manager Tracey Keenan, Head of Short Duration Strategies, and three research and implementation professionals. Given our emphasis on exploiting pricing inefficiencies in cash markets, we believe that the optimal portfolio management structure is comprised of a small, cohesive team of experienced investors with clearly defined roles working in a collaborative fashion. The team is supported by additional research, trading, and operations professionals at the firm.

RISK

Risks associated with investing in the Strategy may include Market Risk - Fixed Income, Credit Risk, Large Shareholder Risk, Management and Operational Risk, and Market Disruption and Geopolitical Risk.