

OPPORTUNISTIC INCOME STRATEGY

The Opportunity

AN OVERLOOKED AND OFTEN UNLOVED ASSET CLASS

The structured finance asset class offers a range of opportunities due to both its inherently fragmented nature and the inefficiencies caused by market segmentation, stale ratings, and structural anomalies.

- **Structural Inefficiencies:** Securities in most parts of the market face discrete pools of loans (where the loans backing one deal are different from all other deals). Individual deals and securities are replete with cash flow waterfall and transactional document differences, requiring intensive research but creating significant alpha potential.
- **Market segmentation and fragmentation:** A fragmented market offers high barriers to entry for large players because security selection becomes less important with size, leaving overlooked opportunities in the market.
- **Stale Ratings:** Mis-rated bonds offer opportunities to investors like GMO that are insensitive to a bond's credit rating. We believe that there are large parts of the market that are too conservatively rated.

The GMO Solution

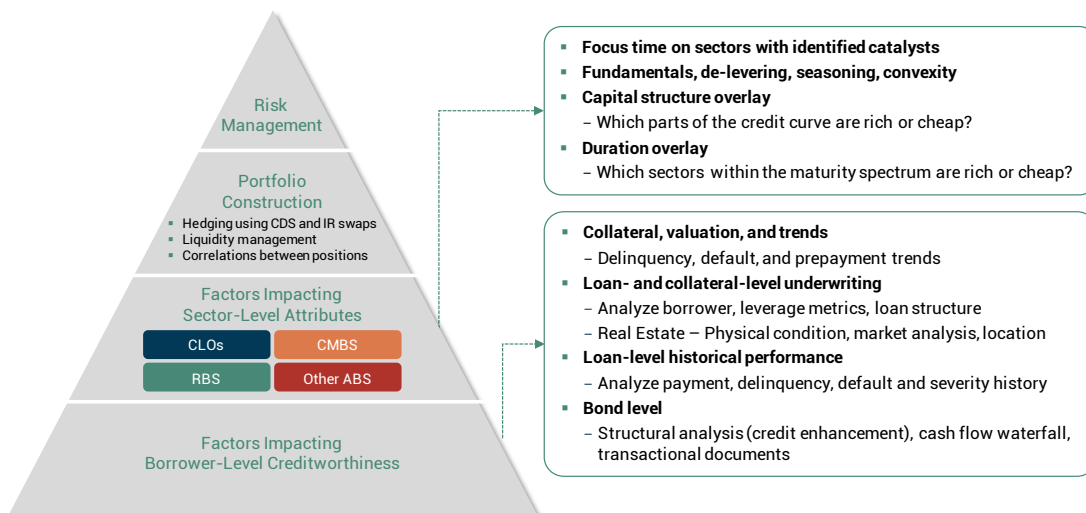
The GMO Opportunistic Income Strategy seeks capital appreciation and current income by investing in the most attractively priced sectors and securities in the structured finance marketplace. The Structured Products team's relatively unconstrained approach combines top-down and bottom-up security selection methods to identify the best opportunities from a pure risk/return perspective. From a top-down perspective, each sector is ranked against one another based on sectoral differences in fundamentals, seasoning, convexity, and place in the leveraging/de-levering cycle. These top-level views are then paired with overlays on capital structure and duration that determine the parts of the curve and the maturity spectrum that offer the most relative opportunity.

Once these top-level allocations are determined, sector-level expertise is applied to determine individual security-level positions. These draw on a range of metrics such as loan-level historical performance, leverage metrics, loan structure, and specific transactional elements measured in a consistent and repeatable fashion to identify security-level opportunities.

Once positions have been identified, systematic portfolio construction and risk management is applied to determine any required credit or interest rate hedges to neutralize secular risks.

STRUCTURED PRODUCTS INVESTMENT PROCESS

Systematically identifying opportunity on the full spectrum of structured products



There are four key features that differentiate GMO's Opportunistic Income Strategy:

- **Concentration:** The Opportunistic Income Strategy offers a “pure play” on structured finance investing that is not usually attainable in more broadly diversified strategies.
- **Size:** With just ~\$1 billion in assets under management, we can afford to spend time on smaller positions of just \$5–10 million in market value. We believe many of the sector's best alpha opportunities reside within these neglected securities.
- **Structural Advantages:** Our sole mission is to pursue the best investment opportunities in structured finance. We are relatively unconstrained by coverage mandates, giving us time and flexibility to dive deeply into sub-sectors and individual securities.
- **Unique Risk Attributes:** The Strategy's interest rate and spread duration are closely monitored at the portfolio level. This has resulted in a relatively low correlation to the market.

The Client Fit

The Opportunistic Income Strategy is of value to clients looking for a relatively more liquid exposure to structured credit. The Strategy is managed in such a way as to combine both the systematic and security fundamental nature of this sector. Due to its low market level credit and interest rate duration, the Strategy offers an exposure that is independent to market beta and has the potential to outperform in varying interest and credit rate environments.

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 investing.

GMO's Opportunistic Income Strategy is managed by Head of Developed Fixed Income Joe Auth and portfolio manager Ben Nabet with the support of the Structured Products team. The team leverages its extensive structured finance and asset-backed securities experience to identify securities that provide the best value relative to what is currently available in the market. Importantly, the team is fully empowered to buy what is truly the best value, rather than just what is in the benchmark.

RISK

Risks associated with investing in the Strategy may include Credit Risk, Market Risk – Asset-Backed Securities, Illiquidity Risk, Focused Investment Risk, and Market Risk – Fixed Income.