ALTERNATIVE ALLOCATION STRATEGY

The Opportunity

A Distinct and Diversified Way to Get Paid. Alternative strategies are not risk-free, but the timing, manner, and pattern of getting paid to bear risk is quite distinct and lowly correlated with traditional asset classes. There is always room for a diversifying, uncorrelated return stream.

Return Opportunities...When Traditional Assets Look Expensive. There will be periods, however, when alternatives make even more sense. Traditional risk assets like equities, bonds, and credit can trade at dangerously high valuations. At those moments, alternative strategies are different enough that they can drive attractive returns when the traditional assets are more likely to disappoint.

Provide Ballast. Given their muted equity beta and often-times "hedged" positions, alternatives can help to protect capital during drawdowns or dampen the effects of drawdowns. Indeed, some alternative strategies are actually engineered to attempt to make money in down markets.

The GMO Solution

Through the years, investors might have considered allocating capital to various alternative strategies. Inevitably, challenging questions arise: "Which ones? How much to each? Should those allocations change through time, and if so, by how much?" It can get complicated quickly.

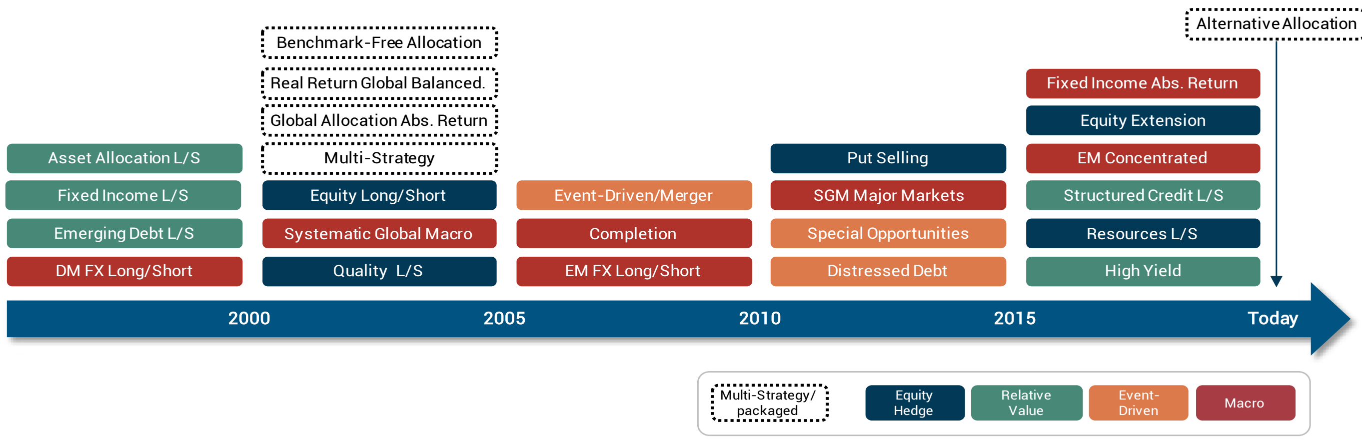
Fortunately, GMO has been answering questions like these for over twenty years, all while managing alternative strategies (on a standalone basis, as multi-strategy solutions, and within the context of traditional "60/40" portfolios). This timespan includes bubbles bursting and major trauma in the capital markets. We are not newcomers, but rather, seasoned veterans.

The GMO Alternative Allocation Strategy is managed by the GMO Asset Allocation team and is a liquid portfolio of underlying sub-strategies, all of which are run by experienced GMO investment teams. The Strategy seeks a total return target of cash plus 4%.

The Strategy's success will be linked to the following differentiated features:

Access to Sophisticated Strategies and Experienced Teams: We have access to a wide variety of alternative strategies across the major categories: Equity hedge, relative value, event-driven, and macro.

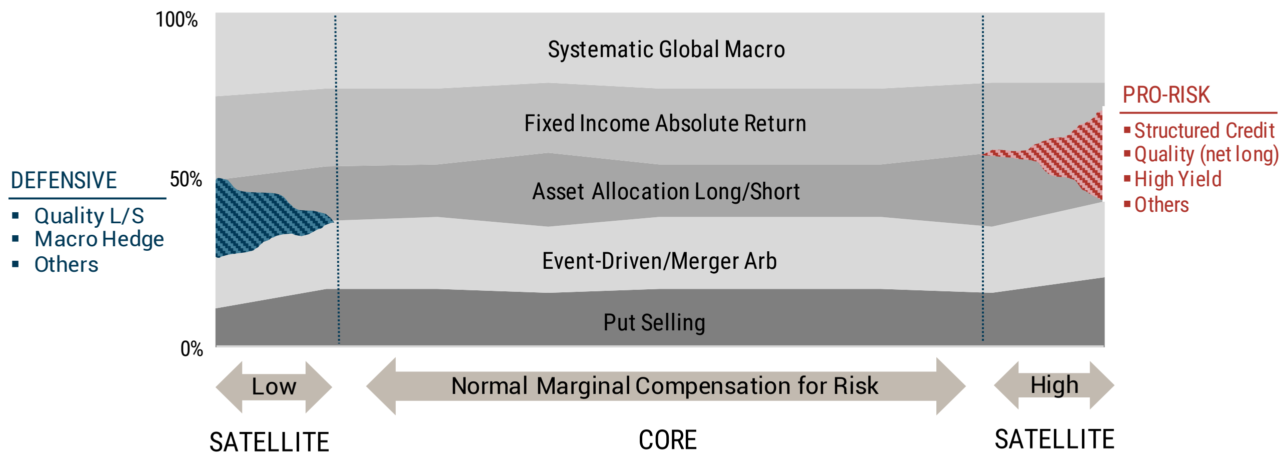
20+ YEARS OF EXPERIENCE IN ALTERNATIVES



Some strategies have been closed. Some strategies are not structured for use in the GMO Alternative Allocation Strategy.

Dynamic allocation on two levels:

- **Top-down.** The GMO Asset Allocation team actively allocates capital among underlying sub-strategies. When the risk opportunity set is in "normal" ranges, the allocations between core strategies will be modest. At market extremes, however, the team can shift to satellite strategies, either defensive or pro-risk.

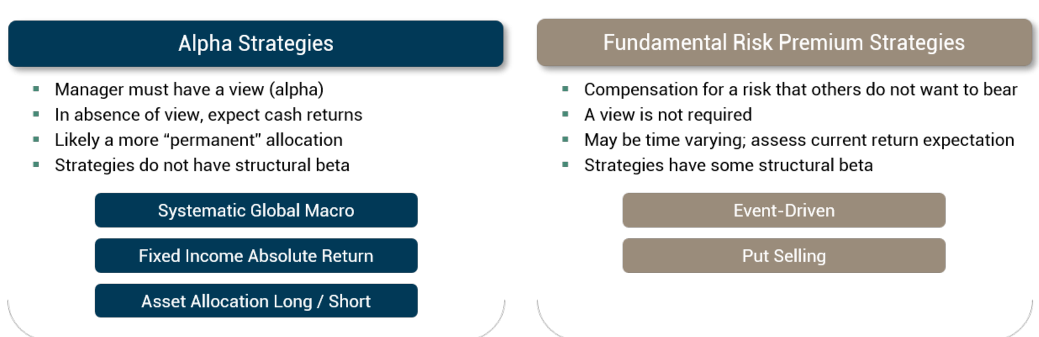


For illustration purposes only.

- **Bottom-up.** The underlying investment teams will also dynamically alter exposures and risk levels within their sub-strategies in an alpha-proportional manner.
  - Individual teams will alter exposures across asset classes and geographical regions.
  - They will dynamically shift capital to exploit value, carry, and sentiment/momentum factors.

Diversity of risk and return:

- Portfolio construction and risk management will combine strategies with low observed statistical correlations but also consider intrinsic correlations (how they behave under duress).
- Not all alternatives strategies are created equal. Some are more skill based (i.e. true alpha), while others are designed to harvest fundamental risk premia[1]. Our approach combines both.



[1]While recently many investors have focused on Alternative Risk Premia ("ARP") strategies in Liquid Alts space, we have chosen a different direction. Given the proliferation of ARP strategies, we view many of these strategies as being commoditized or certainly possessing less potential return than any well-devised back test would suggest. These strategies represent return anomalies as opposed to risk premia, i.e., compensation for bearing a risk that others are unwilling to bear. Rather than anchoring to simple, well-known factors with good back tests, we have focused ALTA on a combination of long-tenured, alpha-oriented strategies and fundamental risk premium or insurance-like activities.

In-House Transparency and Partnering. Because all strategies are managed internally at GMO, the Asset Allocation team has transparency into the positions. Our long history of working with these underlying teams - in some instances for close to twenty years - provides a look-through to their rationale and conviction levels.

Capital-Efficient. Our approach combines cap-intensive strategies with cap-light (derivatives-based) strategies. Structured as an overlay, a dollar of capital can deliver more than a dollar of alpha, without the need for an expensive prime broker or balance sheet financing.

The Client Fit

There are numerous ways for investors to use the GMO Alternative Allocation Strategy:

- **Part of Traditional Balanced or Model Portfolios:** Investment committees or advisors with strategic benchmarks could employ the GMO Alternative Allocation Strategy as a diversifier to their traditional mix. Alternatives can offer uncorrelated return streams because the pattern of getting paid is distinct. GMO, itself, has often integrated a collection of alternative strategies into a more traditional balanced (i.e., “60/40”) portfolio.
- **The Liquid Piece of an Alternatives Portfolio:** Many investors have a dedicated “alternatives” portion of their overall strategic mix that often contains illiquid or liquidity-constrained strategies such as private equity, real estate, infrastructure, or hedge funds. The liquid nature of the GMO Alternative Allocation Strategy, however, provides access to non-traditional strategies but with easier and less costly re-balancing.
- **Retirement Solutions**: For retirees or near-retirees, the risks of drawdowns at inopportune times is more than just an inconvenience, it can mean the difference between a happy retirement and financial ruin. Liquid alternatives can provide diversification and more consistent returns, and the long-short (i.e., “hedged”) nature of many of the underlying strategies has the potential to dampen drawdowns and even benefit from them.
- **Overlay or Portable Alpha Programs (for larger institutions)**
    - **LDI – Liquid Alternatives as Replacement for Equity in Diversified Growth Portfolio:** A Liability-Driven Investment (LDI) Program for defined benefit plans typically combines the liability-hedging overlay with a risk-seeking growth portfolio. The GMO Alternative Allocation Strategy fits well into that growth bucket, as its expected volatility (ranging between one half and one third the volatility of stocks) is more appealing than a pure equity play.
    - **Portable Alpha:** Larger investors could use the GMO Alternative Allocation Strategy’s uncorrelated return pattern to port on to a beta-replication portfolio (synthetic).

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

Asset allocation is not a subset of GMO’s offering; it is a principal competency of the firm. We have been managing broad-based, multi-asset class portfolios - both traditional and alternatives - since 1988 and have developed a specialty in valuing asset classes. Moreover, GMO has over 20 years of experience in managing individual alternative strategies and packaging them together into multi-strategy solutions. We have built a broad and deep team, with diverse areas of expertise.

RISK

Risks associated with investing in the Strategy may include: Management and Operational Risk, Leveraging Risk, Derivatives and Short Sales Risk, Market Risk - Equities, and Market Risk - Fixed Income.

(617) 330-7500 | www.gmo.com