

QUARTERLY INVESTMENT REVIEW

Benchmark-Free Allocation Strategy

Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
Benchmark-Free Allocation Strategy (net)	3.68	7.31	13.95	5.61	4.65	3.42	7.57
Benchmark-Free Allocation Strategy (gross)	3.88	7.93	14.83	6.46	5.51	4.26	8.43
CPI Index	0.52	1.89	2.34	4.70	4.18	2.85	2.50
Value Add	+3.15	+5.42	+11.60	+0.90	+0.47	+0.57	+5.07

MAJOR PERFORMANCE DRIVERS

- Top-down asset allocation was positive, as equities and fixed income had a strong quarter.
- Security selection was negative, as the performance of the alternative strategies allocation hampered returns.

Long-only equities represented 55.9% of the portfolio on average through the quarter, with 5.3% in Emerging Markets and 5.1% in Emerging Markets ex-China, both with a distinct Value bias, 6.4% in Japan Fundamental Value, 5.2% in developed ex-U.S. Small Value, 6.4% in Developed ex-U.S., 4.8% in Resource Equity, 3.9% in Quality Cyclical, 6.1% in U.S. Opportunistic Value, 9.5% in International Opportunistic Value, and 3.2% in Japan Small Value.

The equity portfolio returned 7.8% for the quarter, ahead of the MSCI ACWI return of 6.6%. Top-down regional exposures had a positive impact for the quarter as the U.S. lagged Developed ex-U.S.; it was also a good quarter for Emerging Markets, although this was driven largely by a spectacular 23.5% return in China, while the rest of Emerging Markets did not fare so well. Security selection was essentially flat for the quarter as good results in Japan offset some underperformance in U.S. Value and Emerging Markets. Our Emerging Markets portfolio returned 6.6%, behind the MSCI Emerging Market index return of 8.7%, while the Emerging Markets ex-China portfolio posted 6.7%. The Japan Fundamental Value portfolio posted 11.7%, ahead of the TOPIX return of 6.8%, while the Japan Small Value exposure posted 11.6%, and the Developed ex-U.S. Small Cap portfolio delivered 8.4%. The Developed ex-U.S. exposure posted 8.4%, which beat the MSCI World ex-USA index by 60 bps but lagged the MSCI World ex-USA Value index by 130 bps. Quality Cyclical returned 5.1%, 150 bps behind its benchmark, while Resource Equity posted 2.7%. The U.S. Opportunistic Value exposure returned 6.6%, 310 bps behind the MSCI USA Value index return of 9.7%, and International Opportunistic Value posted 10.1%, ahead of the MSCI World ex-USA Value return of 9.7%.

Alternative strategies averaged 32.5% through the quarter, including 7.2% in Systematic Global Macro, 4.4% in Event-Driven, and 20.9% in Equity Dislocation. Alternative strategies returned -1.5% for the quarter. Equity Dislocation returned -3.9%, an unfortunate result given that MSCI ACWI Value beat MSCI ACWI Growth, although the strategy remains well ahead of the naïve approach for the year-to-date and longer time periods. Systematic Global Macro was down -6.4%, driven largely by commodity positioning, while Event-Driven was up 2.6% and the collateral gave a nice boost to the alternative sleeve with a 2.5% return for the quarter.

Composite Inception Date: 31-Jul-01

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 - Equities: The market price of equities may decline due to factors affecting the issuer, its industries, or the economy and equity markets generally. Declines in stock market prices generally are likely to reduce the net asset value of the Fund's shares. (3) Non-U.S. Investment Risk: The market prices of many non-U.S. securities (particularly of companies tied economically to emerging countries) fluctuate more than those of U.S. securities. Many non-U.S. markets (particularly emerging markets) are less stable, smaller, less liquid, and less regulated than U.S. markets, and the cost of trading in those markets often is higher than it is in U.S. markets. For a more complete discussion of these risks and others, please consult the Fund's offering documents. This is not a complete list of risks associated with investing in the Strategy. Please contact GMO for more information. **Performance Returns:** Performance for the year of inception is less than a full calendar year. 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. **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. Gross returns are presented gross of management fees and any incentive fees if applicable. These 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 and incentive fees were deducted performance would be lower. For example, if, before fees, the strategy were to achieve a 10% annual rate of return above its hurdle rate each year for ten years, and an annual advisory fee of 1% and incentive fee of 20% of net returns above the hurdle rate were charged during that period, the resulting average annual net return (after the deduction of management and incentive fees) would be approximately 7.20%. **GMO LLC claims compliance with the Global Investment Performance Standards (GIPS®).** A Global Investment Performance Standards (GIPS®) Composite Report is available on 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. Prior to January 1, 2012, the accounts in the Composite served as the principal component of a broader real return strategy. Beginning January 1, 2012, accounts in the composite have been managed as a standalone investment. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.

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MAJOR PERFORMANCE DRIVERS CONT.

Fixed income represented 11.7% of the portfolio on average through the quarter, including 4.1% in asset-backed securities, 2.1% in Emerging Country Debt, and 5.5% in U.S. Treasuries. Our fixed income strategies returned 3.9% for the quarter, behind the Bloomberg U.S. Aggregate return of 5.2%. Emerging Country Debt, as measured by the J.P. Morgan EMBIG-D index, had a 6.2% return, and the portfolio beat that modestly with a 6.6% return. The asset-backed securities posted 3.2%, trailing the Bloomberg U.S. Securitized index return of 5.4%. It was also a solid quarter for traditional duration and the U.S. Treasury exposure rose 3.8%.

QUARTERLY INVESTMENT REVIEW

PRODUCT OVERVIEW

The GMO Benchmark-Free Allocation Strategy seeks to generate positive total return by allocating dynamically across asset classes, free from the constraints of traditional benchmarks.

The philosophy that underlies all of GMO's Asset Allocation investment strategies is the belief that, at times and in the short term, the pricing of asset classes can deviate from true intrinsic value, but mean reverts to appropriate valuation levels over the long term. GMO's proprietary 7-Year Asset Class Forecasts form the foundation of our investment process, providing a framework to assess the return opportunity embedded in different asset classes. We use that insight to allocate to what we believe are the most attractively priced asset classes.

IMPORTANT INFORMATION

Comparator Index(es): The CPI (Consumer Price Index) for All Urban Consumers US All Items is published monthly by the U.S. government as an indicator of changes in price levels (or inflation) paid by urban consumers for a representative basket of goods and services. CPI Index returns are typically reported on the 15th of the month. The CPI data reported may not include the most recent month-end which could impact the data that GMO has provided.

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.

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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*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