

# QUARTERLY INVESTMENT REVIEW

## International Equity Strategy

### Performance returns (USD)

ANNUALIZED RETURNS (QUARTER-END)	Quarter-End	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception
International Equity Strategy (net)	8.61	16.53	26.49	8.66	10.95	5.42	7.44
International Equity Strategy (gross)	8.80	17.16	27.40	9.45	11.75	6.19	8.20
MSCI EAFE +	7.26	12.99	24.77	5.48	8.20	5.71	6.78
Value Add vs. MSCI EAFE +	+1.34	+3.54	+1.72	+3.18	+2.76	-0.29	+0.66
MSCI EAFE Value	8.89	13.79	23.14	8.94	8.27	4.56	6.46
Value Add vs. MSCI EAFE Value	-0.28	+2.75	+3.35	-0.27	+2.69	+0.86	+0.98

### MAJOR PERFORMANCE DRIVERS

Global equity markets enjoyed an excellent third quarter as Joe Biden dropped out of the presidential race, but Kamala Harris picked up the baton in a relatively seamless way. The Fed finally obliged with a 50 bp rate reduction in September, though it was accompanied by a warning that it would continue to be cautious in its approach. Markets seem unconcerned by the escalating situation in the Middle East even as it seems to be hurtling toward all-out conflict in the region.

In the third quarter MSCI EAFE Value decently outperformed MSCI EAFE. In this environment, Valuation models did well as expensive companies lagged, although surprisingly the very cheapest companies performed in line with the market. Companies identified as being expensive on the Industry Value model fared particularly poorly. Portfolio outperformance was largely driven by positive stock selection.

Country allocation was additive, as a modest underweight exposure to Denmark was extremely beneficial, as the market there suffered double-digit negative performance as a major Health Care company gave back the gains it had enjoyed in the second quarter. Within countries, security selection was positive, with notable contributions from Japan, the Netherlands, and the U.K.

From a sector perspective, allocation was meaningfully negative, although this was an aggregate of small losses with no notable headlines. Security selection within sectors was very strong, driven by Consumer Discretionary, with success in Japan worthy of mention, and Health Care, in no small part due to the underweight positioning in Denmark.

Composite Inception Date: 31-Mar-87

**Risks:** Risks associated with investing in the Strategy may include: (1) 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. (2) 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. (3) Management and Operational Risk: The risk that GMO's investment techniques will fail to produce desired results, including annualized returns and annualized volatility. 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](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. 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. The portfolio is not managed relative to a benchmark. References to an index are for informational purposes only.**

# QUARTERLY INVESTMENT REVIEW

## PRODUCT OVERVIEW

The GMO International Equity Strategy seeks to generate high total return by investing primarily in non-U.S. developed market equities. The Strategy measures its performance against the MSCI EAFE Index.

The Strategy's investment approach is grounded in the Systematic Equity team's belief that, in the short term, equity markets exhibit exploitable inefficiencies as a result of irrational investor actions, the imperfect flow of information, and the participation of non-economic actors, while in the long-term returns are ultimately driven by economic reality. The Strategy aims to take advantage of these inefficiencies by utilizing a multi-factor valuation model in conjunction with other methods, such as cross-asset signals and corporate alerts, to identify undervalued equity securities.

## IMPORTANT INFORMATION

**Comparator Index(es):** The MSCI EAFE + (Europe, Australasia, and Far East) Index is an internally maintained benchmark computed by GMO, comprised of (i) the MSCI EAFE (Europe, Australasia, and Far East) Value Index (MSCI Standard Index Series, net of withholding tax) through 06/30/2014 and (ii) the MSCI EAFE (Europe, Australasia, and Far East) Index (MSCI Standard Index Series, net of withholding tax) thereafter. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder. The MSCI EAFE (Europe, Australasia, and Far East) Value Index (MSCI Standard Index Series, net of withholding tax) is an independently maintained and widely published index comprised of international large and mid capitalization stocks that have a value style. Large and mid capitalization stocks encompass approximately 85% of each market's free float-adjusted market capitalization. Style is determined using a multi-factor approach based on historical and forward-looking characteristics. MSCI data may not be reproduced or used for any other purpose. MSCI provides no warranties, has not prepared or approved this report, and has no liability hereunder.

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.

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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

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