GMO

YEAR-END LETTER FOR 2024

Asset Allocation Team: Alternative Allocation

Dear Client,

The year's general market commentary was well documented long before the books closed on 2024. For the second year in a row, it paid handsomely to be allocated to U.S. equites, specifically U.S. mega caps. The S&P 500 surged 25.0%, with the Magnificent Seven boasting an average return of 57% and accounting for over half the index's market cap gain. In contrast, MSCI ACWI-ex U.S. was up a mere 5.5%, roughly matching the returns for the 3-Month T-Bill. Meanwhile, TIPS, nominal bonds, and the U.S. Agg all underperformed cash. You have likely seen similar statistics numerous times elsewhere. No matter how you frame it, this has been a narrow market.

The GMO Alternative Allocation Strategy delivered -2.66% for the year, net of fees. Performance across our underlying strategies was mixed over the course of the year. Ultimately, widening value spreads in equities and commodities led to underperformance for key positions in Equity Dislocation and Systematic Global Macro.

While the Strategy is not structured to beat a bull market equity run, especially one dominated by the Magnificent Seven, we are disappointed that our performance fell short of our 3-4% target of uncorrelated returns above cash.

As will be discussed in more detail below, a major research priority across GMO since the beginning of 2024 has been expanding our lineup of alternative strategies to enhance diversification and improve the long-term return potential for the Alternative Allocation Strategy. With the addition of these capabilities, our Strategy will materially increase total exposure. In addition, we expect the Strategy to exhibit wider volatility bands and to take better advantage of different market scenarios.

Return Drivers in 2024

Systematic Global Macro was by far the largest detractor in 2024. The strategy was down 16.4% on the year[1]. These losses were primarily attributable to the commodities portfolio, led by short positions in cocoa, gold, and silver. The price of cocoa nearly tripled over the course of the year. While there has been a reduction in global supply due to drought in the Ivory Coast, GMO's analysis concludes that the price action is not justified by a supply-demand imbalance but rather driven by speculators in the market. The stock-to-grind ratio, a better measure of market demand for the physical good, would imply prices should be roughly half of where they are today. The story is similar though less extreme for gold, silver, and several other commodities. Prices have become driven by speculation rather than fundamentals. We believe that patience pays off in these types of mean reverting positions.

The continued strong performance of U.S. growth further widened value spreads within equities. As a result, Equity Dislocation faced challenging third and fourth quarters, ending the year down 4.8%. In a year in which ACWI Value lost to ACWI Growth by nearly 14%, the strategy benefited from portfolio design choices including position size limits and sector bet constraints, which prevented the strategy from taking large amounts of single-stock risk, particularly in the short portfolio.

Event-Driven had a solid year. Despite high-profile broken deals in U.S. Steel and Albertsons dominating merger headlines, there were many solid wins throughout the year, including DS Smith and Liberty Broadband. There will often be volatility along the way, but the portfolio continues to deliver reliable idiosyncratic returns and finished up 6.7% in 2024.

Other strategies also contributed positively, with Put Selling up 9.8% and Opportunistic Asset Allocation posting a return of 4.6%.

[1] All returns reported for sub-strategies are net of cash.

Development of New Alternative Capabilities

While we maintain our conviction in the opportunity set for Alternative Allocation Strategy's core strategies – Systematic Global Macro, Equity Dislocation, and Event-Driven – we believe we can materially benefit the Strategy's return profile by adding exposure to additional diversifying strategies while remaining within an appropriate risk profile.[2] We have long been committed to innovating and developing new strategies that can further enhance our liquid alternative capabilities, and we placed a particular emphasis on this effort over the past year and will continue to do so in 2025.

In 2024, we expanded the Strategy's fixed income investments. Mid-year, we added a High Yield Credit Volatility strategy that seeks to harvest carry from the options markets when implied volatilities are elevated. In the third quarter, we added an Emerging Market FX strategy, managed by GMO's Emerging Country Debt team. The strategy leverages proprietary models to help select from a universe of over thirty emerging and frontier currencies. We are excited for the potential carry this strategy can bring to the overall Alternative Allocation Strategy. Finally, in the fourth quarter we added a trend-following strategy in U.S. and European investment grade and high yield credit markets. The credit volatility and trend strategies were built by our Developed Fixed Income team.

We expect to expand the Strategy's exposure to volatility and trend strategies in 2025. While the Strategy has long harvested the volatility risk premium in S&P 500 options, we expect to enhance the activity by diversifying across indices, moneyness, and tenor based on attractiveness and delta-hedging (a portion of) the options sold. We also expect that expanding our trend-following exposure beyond credit and into rates, commodities, currencies, and equities can provide diversification benefits and additional sources of return for the Strategy.

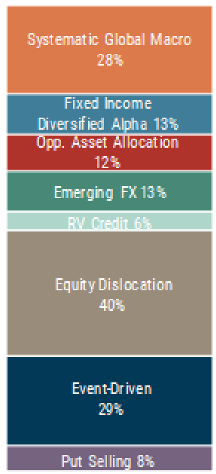
Finally, we expect to add equity long/short capabilities in partnership with two of GMO's investment teams. First, we will introduce an Equity Market Neutral strategy developed in collaboration with our Systematic Equity team. That strategy will leverage several models focused on value, quality, and momentum as well as other qualitative inputs. This will provide a differentiated return profile from Equity Dislocation, which relies on GMO's version of price to fair value. We will also add a Quality Long/Short strategy managed by our Focused Equity team. This beta-neutral strategy will capitalize on the team's fundamental insights and should provide downside protection to the Alternative Allocation Strategy, if the low-quality stocks that the strategy shorts continue their longstanding practice of falling precipitously in times of market stress.

These new capabilities specifically constructed for Alternative Allocation Strategy embody GMO's ongoing commitment to research and innovation within the liquid alternatives space. The exhibit below shows the portfolio's pro-forma strategy allocations.

[2] Annualized volatility has been in the 4-5% range since the Alternative Allocation Strategy launched in 2019. Once the new enhancements discussed here are fully implemented, we expect a volatility range closer to 7-9% depending on the opportunity set and market environment. We believe a mid- to high-single digit volatility profile is most consistent with the Strategy's cash plus 3-5% net of fees return objective.

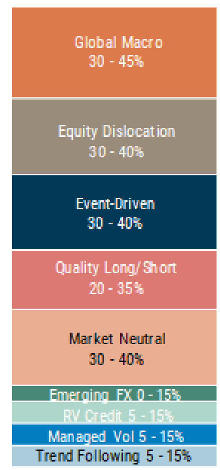
BEFORE AND AFTER

12/31/24 PORTFOLIO CAPITAL ALLOCATION



Equity Beta	0.05
Annualized Vol	4% - 5%
Capital Long	80%
Capital Short	50%

PRO FORMA ALLOCATIONS CAPITAL ALLOCATION



Equity Beta	0.15
Annualized Vol	6% - 10%
Capital Long	180%
Capital Short	125%

*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. Weightings are as of the date indicated and are subject to change. The groups indicated above represent exposures determined pursuant to proprietary methodologies and are subject to change over time.

Totals may vary due to rounding.

Liquid Alternatives Play a Valuable Role in a Diversified Portfolio

December offered a reminder of the role of liquid alternatives within a larger portfolio. The mighty S&P 500 was down 2.4%, with MSCI ACWI down the same. Bonds did not offer any safety, as the U.S. 10-year was down 2.6% and the Barclays Agg fell 1.6%. The Alternative Allocation Strategy, on the other hand, was up 1.2% on the month. While we can't promise that a streak of Decembers lies ahead, we do believe that the opportunity set for our core strategies and the addition of the new allocations described above position the Strategy well to deliver on its objectives.

The GMO Asset Allocation team remains a strong believer in the benefits that liquid alternatives provide as a key building block for balanced portfolios. Our multi-asset class portfolios will be investing in the enhanced Strategy to broaden the scope of their alternatives exposure. We sincerely thank you for the trust you have placed in us, and we look forward to continuing to work with you in 2025.

Yours sincerely,

Ben Inker
Co-Head of the GMO Asset Allocation Team

John Thorndike
Co-Head of the GMO Asset Allocation

B.J. Brannan
Portfolio Manager

Annualized Returns as of 12/31/2024 (Net, USD)	Inception	1-Year	3-Year	5-Year	ITD
GMO Alternative Allocation Strategy	7/31/2016	-2.66%	2.19%	0.14%	0.71%
FTSE 3-Month T-Bill		5.45%	4.05%	2.54%	2.49%

Returns shown for periods greater than one year are on an annualized basis.

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. **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.

Disclaimer
The views expressed are the views of Ben Inker, John Thorndike, B.J. Brannan, and the GMO Asset Allocation team through the period ending January 2025, and are subject to change at any time based on market and other conditions. This is not an offer or solicitation for the purchase or sale of any security and should not be construed as such. References to specific securities and issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities.