



YEAR-END LETTER FOR 2023

Asset Allocation Team: Equity Allocation

Dear Client,

We hope this letter finds you, your family, and your colleagues healthy in this New Year. As we enter 2024, we are enthusiastic about the prospects for our equity allocation strategies given the abundance of cheap equities and appealing opportunities to add value within equities through active style and geographic allocations.

Most investors and economists entered 2023 skeptically after a bruising year of negative stock and bond returns in 2022. Calls for a U.S. recession and muted financial market returns were prevalent, but economic growth proved resilient, and equity returns robust. Despite challenges like the continuation of the steepest rate hike in decades, elevated geopolitical tensions and regional banking issues, equity markets rallied an impressive 22%¹ propelled by robust fiscal stimulus in the U.S. and Europe, a strong U.S. consumer, and the Fed's pivot toward more accommodative guidance late in the year. Forecasters were equally wrong-footed in China, where the equity market declined 11% despite the much-anticipated re-opening. Equity market returns varied meaningfully with the U.S. outperforming non-U.S. markets in large part due to the superlative performance of a concentrated group of technology-related stocks boosted by a tailwind for all things AI, better than expected earnings growth, and expectations for future interest rate cuts.

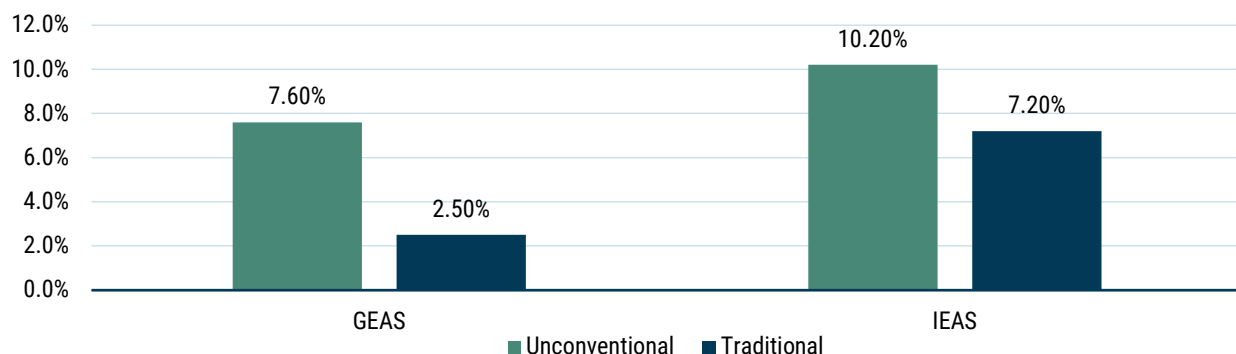
2024 Outlook

Even after a strong equity rally, the opportunity set across equities is compelling. We are finding:

1. attractive forecasted returns across many stock exposures;
2. extraordinary relative value opportunities across styles and geographies; and
3. cheap currencies.²

Consequently, GMO's equity allocation strategies, which can shift toward the most attractive areas while avoiding those that look expensive (i.e., growth equities in the U.S. today), stand to deliver compelling absolute and relative returns. The displays below highlight the forecasted real returns for portfolios allocated like our most flexible global equity allocation strategy, the Global All Country Equity Allocation Strategy (GEAS), and our International All Country Equity Allocation Strategy (IEAS) in our "Low" forecast scenario relative to their respective benchmarks. By dialing into a diverse set of attractive return opportunities such as significant leans to value (particularly deep value), and non-U.S. equities in the case of GEAS, we believe portfolios allocated like these strategies ("unconventional") offer excellent absolute returns and attractive relative returns. The alpha opportunity in a strategy like GEAS, which is benchmarked against the MSCI ACWI, is particularly compelling given the benchmark remains saddled with expensive U.S. growth equities.

EXHIBIT 1: PARTIAL MEAN REVERSION (LOW)



As of 12/31/2023

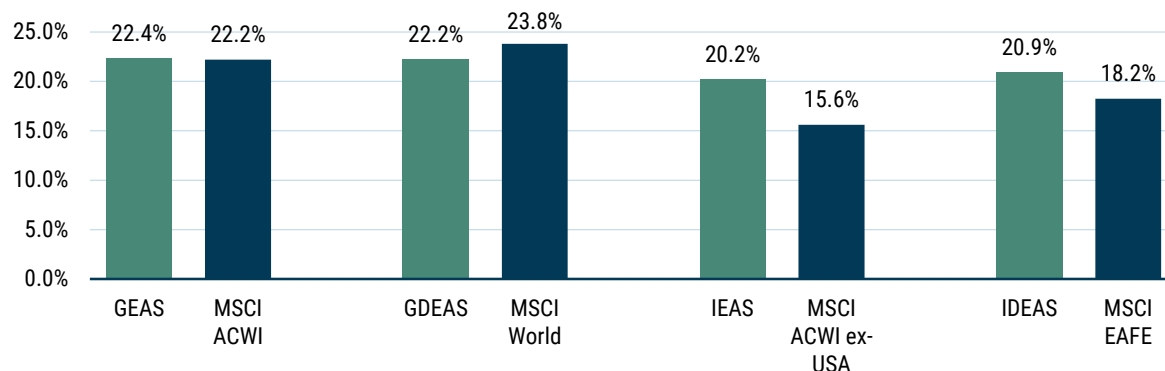
¹ MSCI ACWI.

² With the dollar being the most expensive currency seen through our valuation-based framework, we believe USD-based investors stand to benefit from non-U.S. unhedged exposures (see forecasts below.) Other developed market investors should benefit as well, in particular from yen and, to a lesser extent, emerging equity positions given the relative attractiveness of those currencies.

2023 Performance Review

Twenty twenty-three marked a strong year for our equity allocation strategies with all portfolios delivering absolute returns over 20% for the year. GEAS rallied 22.4% (net), modestly outperforming its benchmark, while Global Developed Equity Allocation (GDEAS) trailed the MSCI World due to its small off-benchmark allocation to emerging equities and higher weight in U.S. deep value stocks (via our U.S. Opportunistic Value Strategy). IEAS and International Developed Equity Allocation (IDEAS) strategies outperformed their benchmarks meaningfully, by 4.6% (net) and 2.7% (net), respectively.

EXHIBIT 2: 2023 NET RETURNS VS. BENCHMARK



As of 12/31/2023 | Source: GMO, MSCI

Key contributors and detractors across our strategies are outlined in the table below.

CONTRIBUTORS

- Value leans (outside the U.S. in global strategies)
- Broad-based security selection with most underlying strategies beating their benchmarks
- Security selection was particularly strong in Emerging Markets (where held), Small Cap Quality (where held), Emerging ex-China, and Developed ex-U.S.

DETRACTORS

- Allocations to Emerging Markets (in global strategies), Developed ex-U.S., and International Opportunistic Value
- U.S. Opportunistic Value selection relative to strong U.S. market (in global strategies)
- Underweight to and selection within Information Technology (in global strategies)

2024 Investment Themes: Rich Opportunity Set Where Selectivity Remains Key

While our equity allocation portfolios have differing benchmarks and objectives, they all share our long-horizon, valuation-sensitive philosophy and currently reflect three core investment themes:

1. Compelling forecasted returns for many equity groups

Stocks have generally benefited from strong fundamental performance, and many are attractively priced relative to fundamentals. In 2023, we rotated equity exposures further into deep value (see below) by adding to International Opportunistic Value (sourced from a broader international equity strategy) and adding modestly to Resources within our global strategies. In addition, within Global Developed Equity Allocation, we shifted 5% from core U.S. Equity to Quality early in the year.

2. Deep value remains extremely compelling

On the surface, 2023 was a bruising year for value with MSCI ACWI Value trailing MSCI ACWI Growth by 21%. The Magnificent Seven led growth's enormous outperformance in the U.S., but outside the U.S., value did just fine, outperforming growth by 1.4% in developed markets and 8.4% in emerging.³

³ Based on MSCI EAFE Value, MSCI EAFE Growth, MSCI EM Value, and MSCI EM Growth indexes.

Value remains cheap across the globe. The cheapest 20% of markets, which we refer to as deep value, are severely dislocated, trading at 7th percentile discounts in both the U.S. and developed ex-U.S. markets on data going back to the early 1980s. Further, our analysis suggests that while value companies typically undergrow the market, that undergrowth has not been any worse than normal in recent years. The combination of cheap valuations and no sign of relative fundamental decay has created compelling long/short and long-only opportunities in value.

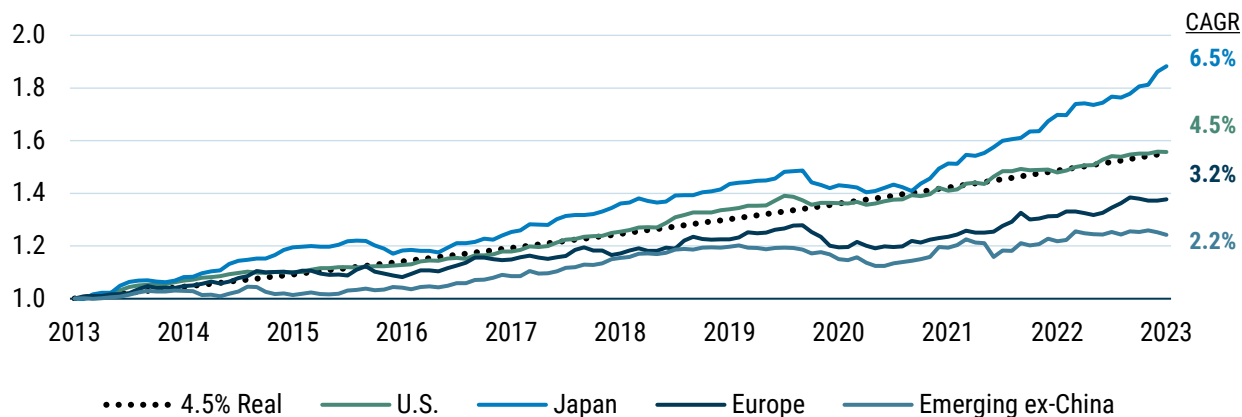
For value to return to a historically normal valuation relative to growth, value needs to beat growth anywhere from 50% to 60% depending on the country or region. GMO’s U.S. Opportunistic Value and International Opportunistic Value strategies were launched in December 2022 and May 2023, respectively, to capture the unique long-only dislocation in deep value stocks in the U.S. and developed markets. We’ve allocated approximately 12%-25% of our equity allocation portfolios to these deep value strategies.

3. Non-U.S. equities are cheap relative to the U.S. and cheap currencies add a tailwind

U.S. equities delivered superlative returns in 2023 while emerging markets lagged. Our underweights to the U.S. (in global strategies) and overweights to emerging equities generally thus detracted. However, our tilt to value in developed ex-U.S. and emerging market equities and strong security selection – particularly in Emerging Markets (where held), Small Cap Quality (where held), Emerging ex-China, and Developed ex-U.S. strategies – offset headwinds from broad regional exposures.

While U.S. fundamentals have been generally in line with what our base case would suggest, their valuations have grown more expensive. The display below charts the returns shareholders earned from distributions and fundamental growth through 9/30/2023, ignoring the effects of valuation change. The dotted 4.5% annualized return line is consistent with what we expect stocks to earn in our “Low” base-case forecast scenario, and it’s roughly what we think equity markets should have delivered over the last 10 years. U.S. companies earned essentially this fundamental return over the last decade. Japanese companies, however, did much better, delivering 6.5% fundamental performance⁴ while both Europe and Emerging ex-China delivered lower growth. The key questions become what will happen to future growth, and what do you need to pay for those fundamentals?

EXHIBIT 3: TRAILING 10-YEAR ECONOMIC CAPITAL GROWTH



As of 9/30/2023 | Source: GMO, Compustat, WorldScope, Shiller, MSCI

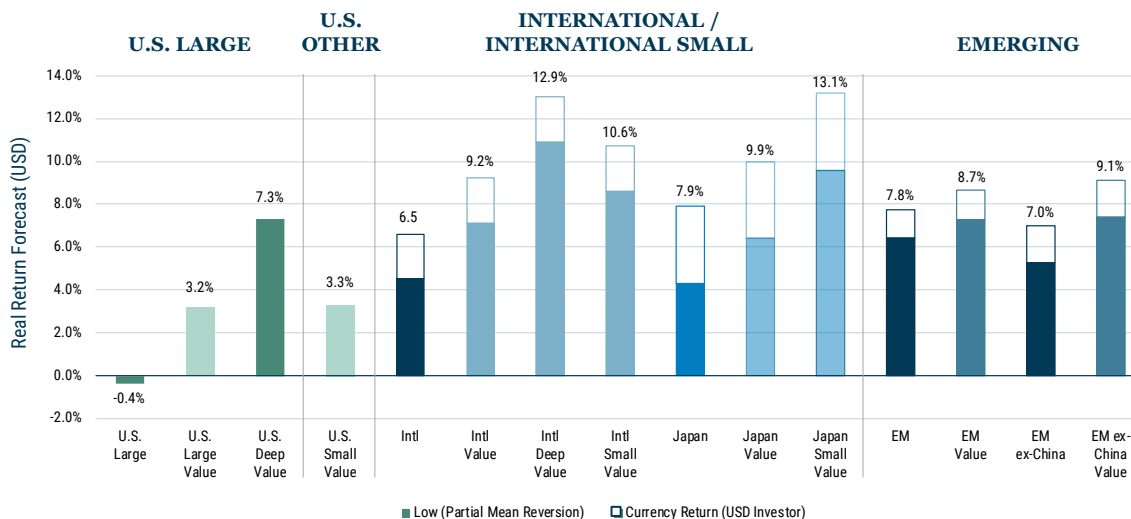
Data shows total return exclusive of valuation change. Valuation is a blend of price to sales, gross profits, book value, and smoothed earnings. Book value and smoothed earnings make use of GMO’s proprietary accounting values. Indexed to 9/30/2013.

U.S. equities remain expensive trading at 33.8x on a cyclically adjusted price-to-earnings (CAPE) ratio basis, Japan about fairly valued at 24.6x, and Europe and emerging ex-China relatively cheap trading at 24.0x and 18.9x, respectively, at year end. Value stocks across all markets trade at abnormally wide discounts, with Japan small value being particularly cheap today. The display below highlights the attractiveness cheap valuations and currencies offer across some of our key forecasts.

⁴ This might be surprising given the U.S. equity market outperformed the Japanese market when measured in dollars, but that is because valuation changes and currency movements more than offset the fundamental advantage Japan delivered. While investors did better owning U.S. equities over the last decade, underlying corporate performance was actually better in Japan.

EXHIBIT 4: 7-YEAR GLOBAL REAL RETURN EQUITY FORECASTS* (USD)

As of December 31, 2023 – Low scenario



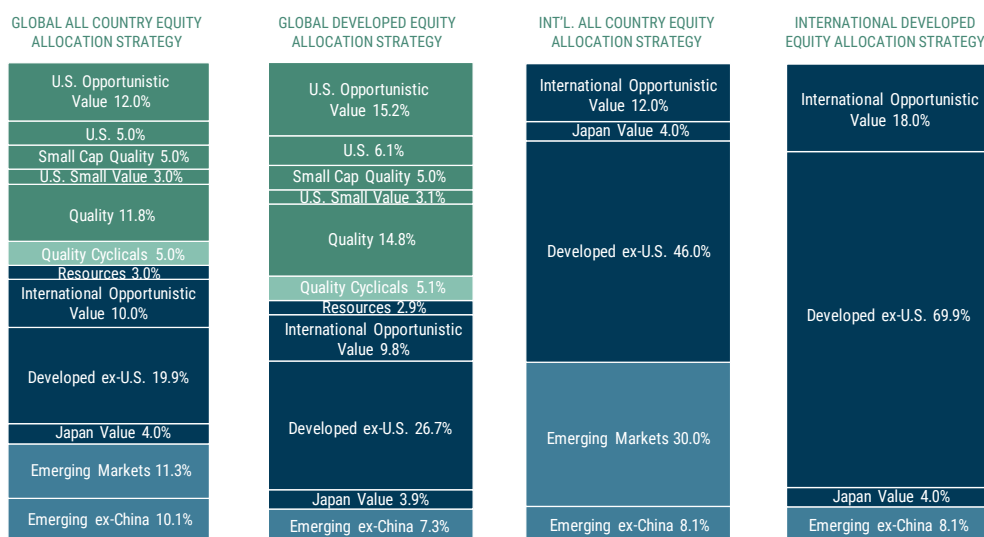
Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements.

Positioning

Our portfolio exposures across strategies reflect our strong preference for value and non-U.S. markets like Europe, Japan, and emerging ex-China. Portfolios were allocated as follows as of 12/31/2023:

EXHIBIT 5: EQUITY ALLOCATION PORTFOLIOS



As of 12/31/2023 | Source: GMO

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. Quality and Quality Cyclical are predominantly U.S. but do hold some Developed ex-U.S. and Emerging. Resources invests broadly across all of U.S., Developed ex-U.S., and Emerging. Totals may not add due to rounding. Cash is excluded for purposes of benchmark comparison.

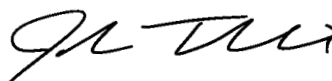
The post-Covid economic environment has been unlike any recovery investors have seen in their professional careers due to large and varied policy responses that have led to shifting imbalances between the demand and supply available for goods and services. While it is normally difficult to call a near-term path for inflation or economic growth, today's environment is particularly complex. What is clear though is that compelling valuation opportunities are abundant, particularly in non-U.S. equities and deep value, both in and outside the U.S. GMO's equity allocation portfolios are positioned to generate strong absolute and relative returns. **And if value outperforms growth and international beats U.S., these portfolios are priced to outperform traditional benchmarks by approximately 3-5% in our Low forecast scenario.**

Thank you for your trust and partnership. We look forward to engaging with you in the year ahead.

Yours sincerely,



Ben Inker
 Co-Head of the GMO Asset Allocation Team



John Thorndike
 Co-Head of the GMO Asset Allocation Team

<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO Global All Country Equity Allocation Strategy	12/31/1993	22.35%	5.46%	9.96%	5.85%	8.24%
MSCI ACWI++		22.20%	5.75%	11.72%	7.93%	7.71%
MSCI ACWI		22.20%	5.75%	11.72%	7.93%	7.37%

<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO International All Country Equity Allocation Strategy	2/28/1994	20.18%	1.66%	6.79%	2.84%	6.24%
MSCI ACWI ex USA+		15.62%	1.55%	7.08%	3.83%	5.29%
MSCI ACWI ex USA		15.62%	1.55%	7.08%	3.83%	5.08%

<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO Global Developed Equity Allocation Strategy	3/31/1987	22.22%	7.61%	11.66%	6.85%	8.91%
MSCI World+		23.79%	7.28%	12.81%	8.60%	7.83%
MSCI World		23.79%	7.28%	12.81%	8.60%	7.42%

<i>Annualized Returns as of 12/31/2023 (Net, USD)</i>	<i>Inception</i>	<i>1-Year</i>	<i>3-Year</i>	<i>5-Year</i>	<i>10-Year</i>	<i>ITD</i>
GMO International Developed Equity Allocation Strategy	11/30/1991	20.93%	5.54%	9.41%	3.69%	7.14%
MSCI EAFE++		18.24%	4.02%	8.17%	4.28%	5.95%
MSCI EAFE		18.24%	4.02%	8.17%	4.28%	5.53%

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](https://www.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

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