GMO

YEAR-END LETTER FOR 2024

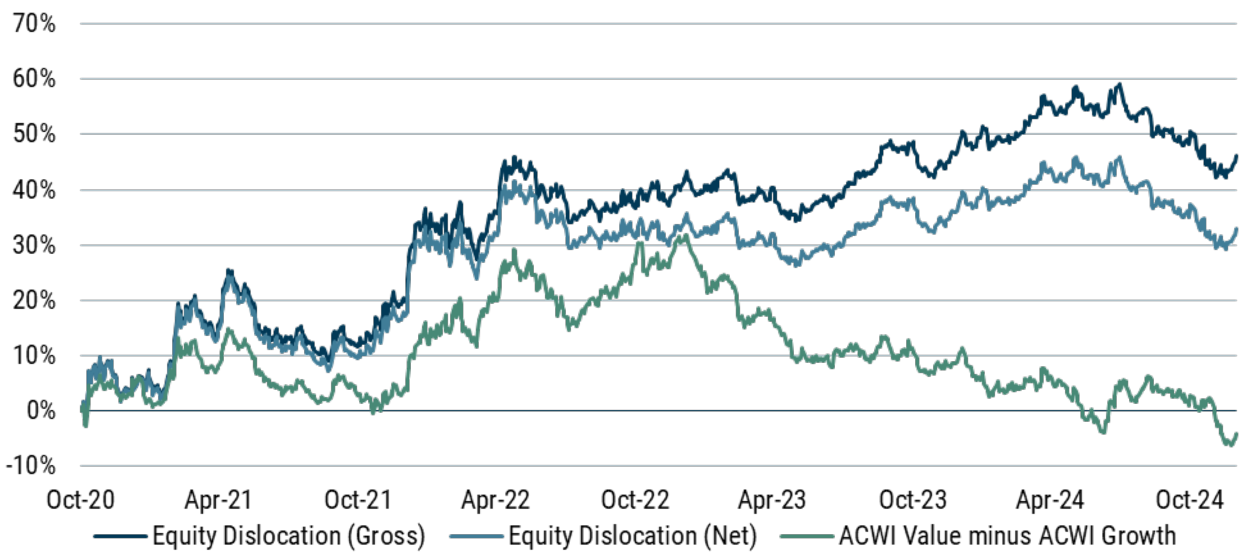
Asset Allocation & Systematic Equity Teams: Equity Dislocation Strategy

Dear Client,

After a tremendous start, Equity Dislocation has faced a much more challenging environment over the last two years. We were satisfied to be able to record a small positive return in 2023, even though MSCI ACWI Value lagged MSCI ACWI Growth by some 21%, but in 2024 we were not able to overcome value lagging growth by 13.4% and unfortunately posted a small loss of -2.7%.

We remain confident that the extreme valuation differential between growth and value will close, and the strategy remains poised to perform very well in an environment of sustained value outperformance. We also value the diversification benefit it provides from being broadly uncorrelated to traditional assets, and so Equity Dislocation remains the biggest single position in the Asset Allocation team's flagship unconstrained Benchmark-Free Allocation Strategy.

EXHIBIT 1: EQUITY DISLOCATION STRATEGY PERFORMANCE



Preliminary as of 12/31/2024 | 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.

2024 Performance Review

Strong outperformance of MSCI ACWI Value minus MSCI ACWI Growth for much of the year

We published a market commentary in July that went into some detail on the outperformance of Equity Dislocation versus a naïve MSCI ACWI Value minus MSCI ACWI Growth approach for the first half of the year. The key drivers were:

- **Stock Selection.** GMO's Price to Fair Value metric does a much better job of estimating current fundamental value and future growth potential than traditional indexes. This has been particularly impactful in the strategy's short book. We have enhanced stock selection during 2024 by explicitly using "Alerts" as an additional stand-alone alpha source (as well as a component of the Price to Fair Value model). Alerts is a suite of empirical indicators that use an alternative approach to assessing mis-pricings, including sentiment and corporate governance signals, in order to gain a differentiated view into company fundamentals. Identifying undesirable, or even suspicious, corporate behavior has proven to be effective in reducing instances of value traps.

- **Focusing on Extremes of Valuation.** We seek to identify the most severe mis-pricings: the *very cheapest* value stocks (roughly the cheapest 20% or "deep value" opportunities) and the *most expensive* growth stocks (roughly the most expensive 20%). These segments are particularly misvalued relative to history and are best positioned to generate excess returns in a reversion scenario. Consequently, Equity Dislocation concentrates capital into the best opportunities, and allocates little capital to companies that are, in our view, only modestly mispriced or trading near fair value.
- **Strategy Design and Risk Controls.** We implement constraints on individual position sizing as well as net sector, industry, country, and currency exposures, and balance market cap exposures across longs and shorts. These constraints have proven beneficial in a period in which certain industries (e.g., Technology) and securities (e.g., the "Magnificent 7") have been unusually dominant.

For the first six months of the year, MSCI ACWI Value trailed MSCI ACWI Growth by some 10.1%, while the Equity Dislocation Strategy was up 4.6%. In a similar vein, MSCI ACWI Value lagged MSCI ACWI Growth by 5.6% in December, while the Equity Dislocation Strategy was up 1.3%.

Lagging MSCI ACWI Value minus MSCI Growth in late summer and early fall

It would be fair to say that we had more probing conversations about the Equity Dislocation Strategy with clients in the late summer and early fall. From the end of June to the end of November 2024, MSCI ACWI Value beat MSCI ACWI Growth by 3.6%, but the Equity Dislocation Strategy returned a disappointing -8.1%. Our analysis identified three themes of interest:

- **Exposure to Mega-Cap Growth.** Across July and August, MSCI ACWI Value beat MSCI ACWI Growth by 5.7% as some of the mega-caps in the U.S. stuttered. For example, despite the MSCI ACWI index being up 4.2% for the period, Microsoft was down more than 6%, Amazon was down more than 7%, and Alphabet was down more than 10%. (Over the full year, Amazon beat MSCI ACWI by broadly 27% and Alphabet beat it by broadly 18%, while Microsoft lagged it by just a couple of percentage points.) When these growth index giants stumble, they provide a huge boost to a naïve value minus growth approach that Equity Dislocation does not benefit from. Indeed, we saw the same phenomenon in the second half of 2022.

- **Deep Value Underperformed in the Third Quarter.** When value outperforms, there is typically an expectation that deep value will perform even better. However, this did not prove to be the case in the third quarter. Some examples of this included:

  - **Autos.** We held an average 7% net long in Autos, an industry synonymous with value, through a diverse basket of 19 long holdings and 3 short positions. This position had been working well but took a sizeable step back, costing 1.2% of performance, as all but two of the long positions had negative absolute returns in a quarter where equites were up (the worst included Stellantis, down 30%; Mazda, down 21%; and Kia, down 19%). In the short book Tesla was up 32% and Ferrari was up 15%, although the short in Rivian continued to be additive as it was down 16%.

  - **Financials.** We were net long Financials to the tune of almost 9%, which added a little to performance as this was a value area that outperformed. However, within developed market Financials the better performers were more "growthy" in areas like Capital Markets, Financial Services, and Insurance while Banks were mostly modest underperformers (there was some strong performance from the emerging market banks). Stock selection detracted on both the long and short side.

  - **Materials and Utilities.** Again, two value sectors where we had negative stock selection on both the long and the short side. Within Materials, it is easy to highlight the differing fortunes of gold mining company Newmont (a short position, up 28% for the third quarter) versus the more traditional value steel company Cleveland Cliffs (a long position, down 17%). Within Utilities, which cost 1% of performance, we were simply short some Independent Power and Renewable Electricity Producers which soared as an AI play –

the story being that "AI could dramatically increase global electricity consumption" (Vistra, the poster child for this thesis, was up a staggering 38% for the quarter).

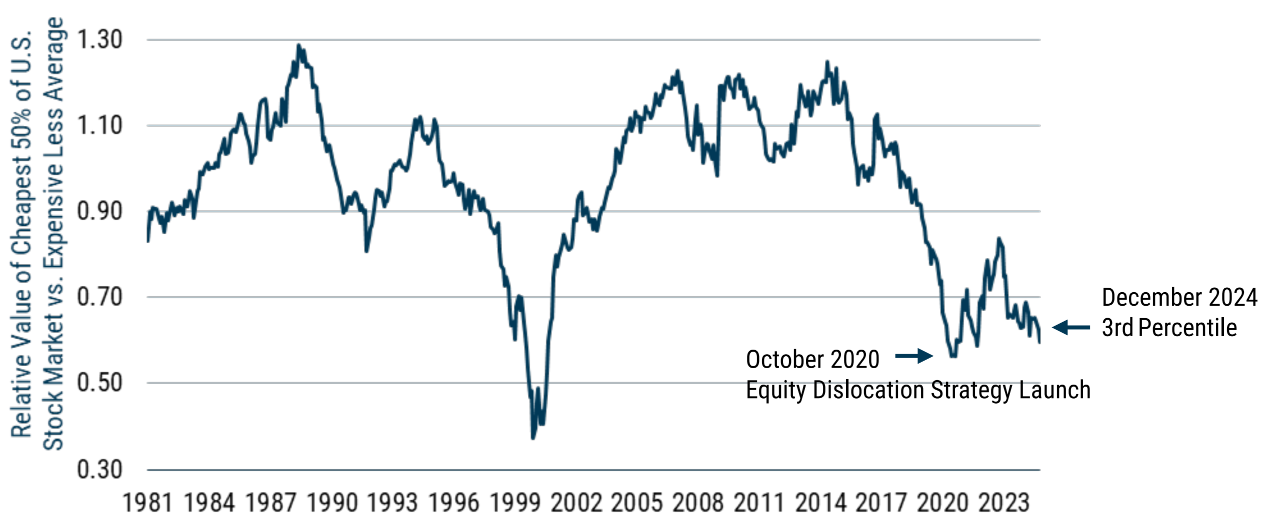
- **Speculative Bounce in the U.S.** In November, once again MSCI ACWI Value lagged MSCI ACWI Growth, as it had done in the first part of 2024, but this time the Equity Dislocation Strategy did meaningfully worse. The market environment took a decidedly speculative turn, with particularly aggressive individual stock responses to earnings and other announcements. Companies that were deemed to be impacted by the incoming administration's potential policies experienced extremely strong moves. In this regard, our approach of giving credit to companies based on their quality characteristics in assessing fundamental value, along with concentrating the short book in extreme/speculative growth, fared badly compared to the naïve MSCI ACWI Value minus MSCI ACWI Growth metric in November. It should be noted that we saw some similarly violent moves in the wake of Trump's first election win. In that event, there was a fairly consistent reversal of the pattern over the following year.

The Remaining Opportunity

At the time of writing in early January 2025, the 20% exposure to the Equity Dislocation Strategy remains the biggest single position in the Asset Allocation team's flagship unconstrained Benchmark-Free Allocation Strategy. Quite simply, we believe that there is still considerable return to be realized as the spread between value and growth closes.

We have shown the exhibit below in our previous annual letters. In 2021, the relative valuation of the cheapest 50% of the U.S. stocks over the most expensive 50% was at the 5th percentile, and after a strong 2022 for value, the spread had narrowed to the 14th percentile. Growth's dominance in 2023 and 2024 has reversed that and the spread now sits at a very attractive 3rd percentile. For value to return to its median historic relative valuation, it needs to outperform growth by another 50-60%.

EXHIBIT 2: VALUE IS STILL VERY CHEAP

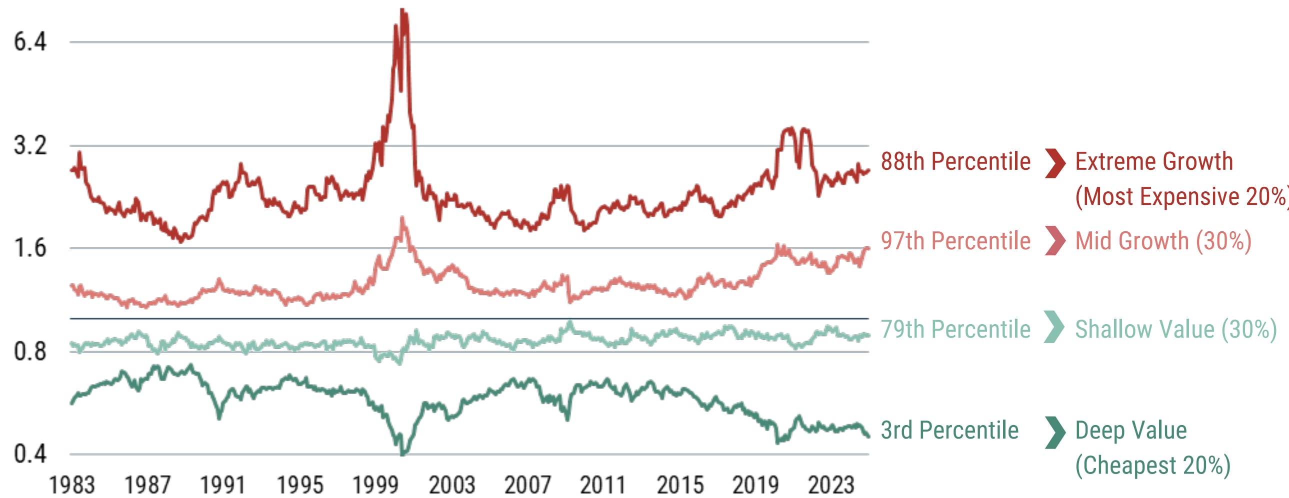


Preliminary as of 12/31/2024 | Source: GMO
Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book.

In Exhibit 3, we split the U.S. market into more granular buckets of cheap and expensive, rather than just the top and bottom halves. Interestingly, much of the bottom half ("shallow value") looks expensive, while the very cheapest stocks still look like an incredible opportunity. This is very encouraging for the Equity Dislocation Strategy as we tend to focus the portfolio on the more extremes of cheap and expensive.

EXHIBIT 3: WITHIN THE U.S., DEEP VALUE SEGMENT (CHEAPEST 20%) IS TRULY DISLOCATED

Valuation Relative to Top 1,000 U.S. Stocks



Preliminary as of 12/31/24 | Source: GMO

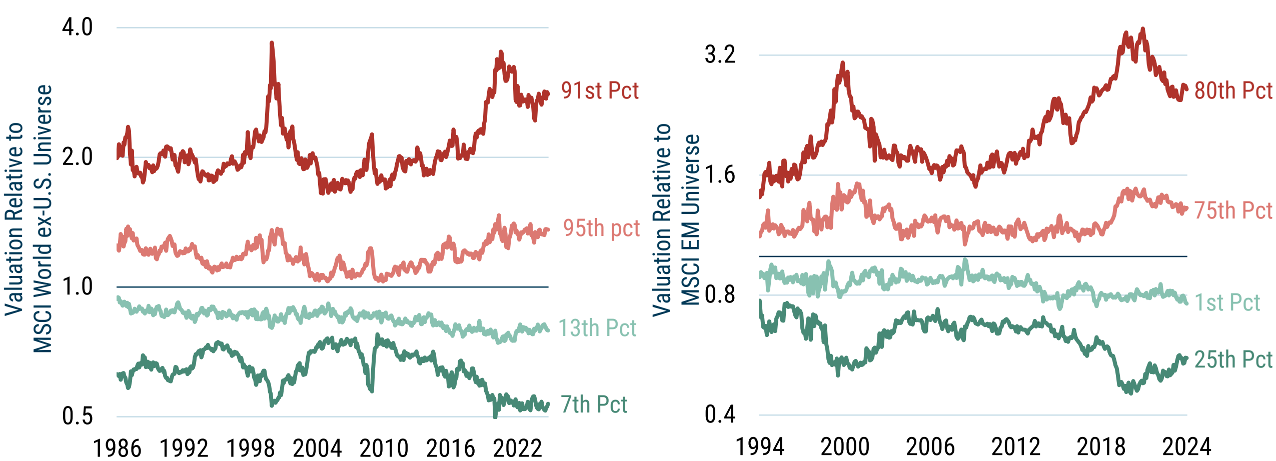
Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. U.S. valuation groups are based on the top 1,000 U.S. stocks by market capitalization, excluding the smallest names per the Asset Allocation team's investable universe thresholds.

While we don't see the same massive difference between deep value and the rest of value outside of the U.S., deep value is extremely well positioned everywhere, while extreme growth is trading at much higher-than-normal premia to the market, as seen in Exhibit 4.

EXHIBIT 4: DEEP VALUE IS EXTREMELY CHEAP GLOBALLY

Valuation Groups in MSCI World ex-U.S. Universe

Valuation Groups in MSCI EM Universe



Preliminary as of 12/31/24 | Source: GMO

Stock valuations are calculated on a blend of Price/Sales, Price/Gross Profit, Price/Book, and Price/Economic Book. U.S. and MSCI EM valuation groups are based on the top 1,000 U.S. stocks by market capitalization and the constituents of the MSCI Emerging Markets Index, respectively, each excluding the smallest names per the Asset Allocation team's investable universe thresholds. All groups have the same country exposure as the universe.

Closing Thoughts

Ultimately, 2024 was a difficult year. While we do not like to be negative in absolute terms, we are reasonably satisfied to have beaten a naïve MSCI ACWI Value minus MSCI ACWI Growth approach by 11%. If anything, the last two years of growth outperformance have increased our excitement about the remaining potential for the value versus growth spread trade.

Thank you for your trust and partnership. We would be delighted to speak with you further if you have any questions. Please do not hesitate to reach out to your GMO relationship manager or a member of our Asset Allocation or Systematic Equity teams for more information.

Yours sincerely,

Ben Inker
Co-Head of Asset Allocation

George Sakoulis
Head of Investment Teams and Systematic Equity

Carl O'Rourke
Portfolio Manager, Systematic Equity

Preliminary Annualized Returns as of 12/31/2024 (Net, USD)	*Inception*	*1-Year*	*3-Year*	*5-Year*	*10-Year*	*ITD*
GMO Equity Dislocation Composite	10/31/2020	-2.67%	4.30%	N/A	N/A	7.13%
FTSE 3-Month T-Bill		5.45%	4.05%	N/A	N/A	2.92%

Final performance numbers are generally available on GMO's website five to ten business days after month end. Investors should not rely on preliminary numbers to make investment decisions.

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.

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